Exhibit 4

彩虹集團電子股份有限公司
IRICO GROUP ELECTRONICS COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

Annual Report 2007

* *For identification only*

Content

Overview

1. Background as a National Enterprise

IRICO Group Electronics Company Limited ("IRICO" or the "Company") was incorporated in Xianyang, Shaanxi Province, the PRC on 10 September 2004. The Company's controlling shareholder, IRICO Group Corporation (holding 75% equity interest of the Company), is a large state-owned enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council.

The Company and its subsidiaries (the "Group") position themselves primarily in the field of electronic display devices and related parts and components (collectively, "components"). With its main production base situated in Xianyang City, Shaanxi Province, the Group also has subsidiaries and production facilities in Xian, Kunshan, Zhuhai, Nanjing and Shenzhen.

2. Smooth Strategic Transformation

Following the global trend of evolution of the display device technology, the Group's business focus is in the process of switching from the traditional colour picture tubes ("CPT") to the booming flat panel display ("FPD") devices and its related components. To-date, the Group's new business structure is formed which encompasses key areas including display devices, electronic glass, luminous materials and metallic parts and the Group's strategic transformation is progressing smoothly.

3. The First Domestic TFT-LCD Glass Substrate Manufacturer

The first domestic production line of the fifth generation of glass substrate for LCD (TFT-LCD) with proprietary intellectual property right owned by IRICO Group Corporation through Shaanxi IRICO Electronics Glass Co., Ltd. (陝西彩虹電子玻璃有限公司) commenced construction at the beginning of the reporting period. The glass furnace was ignited as scheduled on 28 December 2007 and was being heated up. The glass furnace commenced production in late March 2008 with the first unit of products expected to be rolled out in the first half of 2008. This will be the first PRC TFT-LCD glass substrate manufactured in a self-sustained manner. To-date, product certification and exchanges on technical specifications have attained remarkable progress with the downstream panel manufacturers.

In accordance with the acquisition agreement entered into between the Company and IRICO Group Corporation on 17 August 2007, the Group will soon acquire the 69.53% equity interest in Shaanxi IRICO Electronics Glass Co., Ltd. held by IRICO Group Corporation. Upon completion of the acquisition, the Group will become the first domestic TFT-LCD glass substrate manufacturer and a major player in the global new FPD devices industry. This will pose as a breakthrough development in the Group's transformation process.

Overview (Continued)

4. Global Major Production Base of Luminous Materials

Luminous materials are a kind of basic material with wide application and high technological content. The Company has accumulated over 20 years' experience in terms of technology, talent, brand name and network in the area of luminous materials and is a major global manufacturer thereof.

The Group's project on energy saving lamps utilizing trichromatic phosphor (energy saving lamp phosphor) achieved noticeable progress in 2007. The sales volume recorded a year-on-year increase of 90% while the market share increased from 17% to 22%. The Group continued to maintain a leading position in the PRC and there is further room of development in the future. New products developed by the Company including cold cathode fluorescent lamp phosphor (CCFL phosphor) for LCD backlight were launched in 2007, while the development of new products such as plasma display device panel ("PDP") fluorescent phosphor (PDP phosphor) was conducted smoothly. These businesses are expected to have further development in 2008.

5. A Leading Enterprise in Domestic CPT Industry

In 2007, the Group fully capitalized on its various competitive edges such as presence of manufacturing stations, economy of scale and strong control over the production chain. It sold 15,327,000 CPTs during the year, representing a year-on-year increase of 2.03%, being a record-high and advancing its PRC market share to 27.3% in 2007 from 22.3% in 2006. The Company continues to remain as an industry leader. Its global market share increased to 13.8% in 2007 from 12% in 2006 as well, bringing a stable cash flow to the Group and providing a strong financial back-up for the Group in realising the Group's goals of developing new products and strategic transformation.

Financial Highlights

1. Results

	2007 **(RMB'000)**	2006 *(RMB'000)*	Increace/ (decrease) *(RMB'000)*	Percentage of change *(%)*
Turnover	**3,358,990**	3,861,710	(502,720)	(13.02)
Cost of Sales	**(3,002,987)**	(3,356,160)	353,173	(10.52)
Gross Profit	**356,003**	505,550	(149,547)	(29.58)
Gross Profit Margin (%)	**10.60%**	13.09%	(2.49%)	N/A
Operating (Loss) / Profit	**94,178**	250,337	(156,159)	(62.78)
Operating Profit Margin	**2.80%**	6.48%	(3.68%)	N/A
Profit of the year attributable to the equity holders of the Company	**66,511**	129,512	(63,001)	(48.64)
Net Profit Margin (%)	**2.0%**	3.4%	(1.37%)	(43.23)
Earnings per share of the year attributable to equity holders of the Company (expressed in RMB per share) — basic	**0.03**	0.07	(0.04)	(57.14)
Dividend per share (RMB)	**0**	0	0	0

Financial Highlights (Continued)

2. Financial position

	2007 (RMB'000)	2006 (RMB'000)
Property, plant and equipment	**2,009,640**	2,497,428
Net current assets	**901,174**	445,810
Cash and bank balances	**363,617**	479,503
Total liabilities	**1,783,723**	2,274,446
Short-term bank borrowings	**962,684**	932,676
Total equity	**3,300,147**	3,216,611

3. Operating indices

	2007	2006
Returns per share (annual)	**3.43%**	6.67%
Inventory turnover (days)	**84**	69
Trade receivable turnover (days)	**157**	141
Trade payable turnover (days)	**69**	63
Current ratio	**1.57**	1.20
Debt equity ratio	**0.92**	1.17

Chairman's Statement

Dear Shareholders,

Following the global trend of evolution of the display device technology, the business focus of the Group has been shifting from the traditional CPT to the booming FPD and related components. At present, a new business structure of the Group comprising display devices, electronic glass, luminous materials and metallic components as core products has taken its form.

2007 marked an important year of strategic transformation for the Group. Guided by the strategic thinking of "reinforcing CPT and exploring new businesses", the staff of the Group are determined and dedicated to their work. On the one hand, being one of the few competitive global CPT manufacturing enterprises, the Group's production yield and sales of CPT both attained a record high, securing the Group as a domestic industry leader and providing stable cash flow for the Group. On the other hand, there was good progress made in the group's strategic transformation with new businesses such as the luminous materials contributing to a greater extent to the Group's revenue and profits while the TFT-LCD glass substrate business is also progressing well. It is expected that the new businesses will bring about a breakthrough to the Group's business growth.

Chairman's Statement (Continued)

In 2007, sales of the Group amounted to RMB3,358,990,000, while gross profit margin was 10.60% and profit attributable to equity holders amounted to RMB66,511,000. In spite of a decline in the Group's results as compared to 2006, we consider it a normal phenomenon arising from industry re-alignment pursuant to the strategic transformation of the Group. We firmly believe that, with the further centralization of global CPT business in the more competitive enterprises and following the rapid development of the Group's new businesses along with our strategic transformation, the Group will be embarking on a distinct episode.

Reinforcing CPT and gathering momentum

We believe that given the large customer base of the CRT (cathode ray tube, CPT being a type of CRT) television-set market and a disparate gap existing among different countries and social groups in terms of living standards, CRT television sets will remain as a core integral part of the global television-set market in the relatively distant future.

As a top-tier enterprise in the CPT industry in the PRC, we adopt "reinforcing CPT" as an important strategy. The Group fully capitalized on its various competitive edges such as presence of manufacturing stations, economy of scale and strong control over the production chain, and continued to adopt a series of pro-active and effective operational strategies including overall cost control, marketing-driven and technology innovation initiatives that further enhanced the competitiveness of the Group in the CPT industry. During the year, under the global climate where the CPT industry kept shrinking, the Group sold 15,327,000 units of CPTs, which grew by 2.03% over 2006 and attained a record high. The domestic market share reached 27.3% in 2007, securing the Group as an industry leader, bringing a stable cash flow to the Group and providing a strong financial back-up for the Group in realizing the Group's goals of developing new products and strategic transformation.

Strategic transformation bringing about a breakthrough

In 2007, the Group was progressing well in its strategic transformation and attained a breakthrough.

First and foremost, the first production line of the fifth generation of glass substrate for LCD(TFT-LCD) with proprietary intellectual property rights owned by IRICO Group Corporation through Shaanxi IRICO Electronics Glass Co., Ltd. commenced construction at the beginning of the reporting period. On 28 December 2007, the glass furnace was ignited and being heated up as scheduled and commenced production in late March 2008 with the first unit of product expected to be rolled out in the first half of 2008. This will be the first piece of TFT-LCD glass substrate manufactured by a PRC Company in a self-sustained manner. To-date, product certification and exchanges on technical specifications with the downstream panel manufacturers have attained marked progress .

Chairman's Statement (Continued)

Strategic transformation bringing about a breakthrough *(continued)*

In accordance with the acquisition agreement entered into between the Company and IRICO Group Corporation on 17 August 2007, the Group will soon acquire 69.53% equity interest in Shaanxi IRICO Electronics Glass Company Limited held by IRICO Group Corporation. Upon completion of the acquisition, the Group will become the first domestic TFT-LCD glass substrate manufacturer as well as a major player in the global new FPD industry. Further, with the launch of the phase 2 glass substrate project, there will be breakthrough development in the Group's strategic transformation.

Besides, in relation to the luminous materials industry, the energy saving lamp phosphor business of the Group recorded relatively strong growth during the reporting period. The 2007 sales volume recorded a year-on-year increase of 90%, representing an increase in market share from 17% to 22%, maintaining our domestic leading position and posing further development prospects. New products researched and developed by the Group including CCFL phosphor powder were launched in the market in 2007 while development of new products such as PDP phosphor powder was progressing smoothly. These businesses are expected to have further development in 2008.

In respect of the FPD devices, the Group has commenced the PDP production through the joint venture with Sichuan Changhong Electrical Group Co., Ltd. Further, the Group also proactively plans for the development of other FPD devices.

Bright prospects looking ahead

We will rely on the strong support provided to the state-owned enterprises, and rich resources such as technology, talents and customers which the Group has accumulated over years. We will further inspire our staff's determination and dedication, under the strategic guidance of reinforcing CPT and exploring new businesses, to realize breakthrough in the corporate transformation in a year with rapid growth in 2008.

As a result of the successful production of the TFT-LCD glass substrate product, launch of the phase 2 project, rapid development of the luminous materials business, nourishing of the metallic components processing and development in the FPD devices domain, the Group will have an even brighter future, bringing higher returns for the shareholders.

Acknowledgement

I have the pleasure to extend my gratitude on behalf of the board of directors to the Company's shareholders, business partners and members of the community for their care and support for the Company, and to express my heartfelt gratitude to all of our management members and employees for their dedicated hard work.

IRICO Group Electronics Co., Ltd.
Xing Daoqin
Chairman

Xianyang, the PRC
24 April 2008

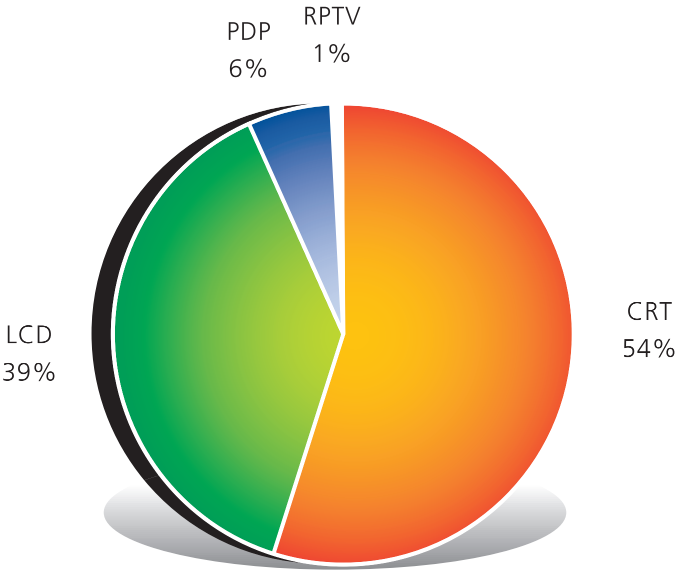
Management Discussion and Analysis

1. Analysis on the Industry

During the reporting period, there continued to be on-going adjustments of the display devices industry.

In 2007, the output volume of CRT television sets amounted to 107,000,000 units globally, representing 54% of the global output of all kinds of television sets. As for the PRC, being the largest production base in the world, the total output volume of CPT enterprises in the PRC reached 52,580,000 units in the reporting period; it is estimated that the proportion of output volume of PRC CPT companies will further increase in the global CPT market towards 2010. Technological advancement such as super-slimming, flattening and digitalization fortified the price-competitiveness of products resulting in strong demand in certain CPT market segments during the reporting period.

Breakdown of the 2007 global output volume of television sets adopting different technology



Source: Displaysearch, research report on global television market, 07Q4

Estimation of output volume of different types of television sets (Unit:'000 sets)

	2007	2008	2009	2010
CRT television sets	106,799	90,889	78,853	68,692
FPD television sets	87,021	112,179	131,599	150,901
RP television sets	1,842	827	413	196
Total	195,662	203,895	210,865	219,788

Source: Displaysearch, research report on global television market, 07Q4

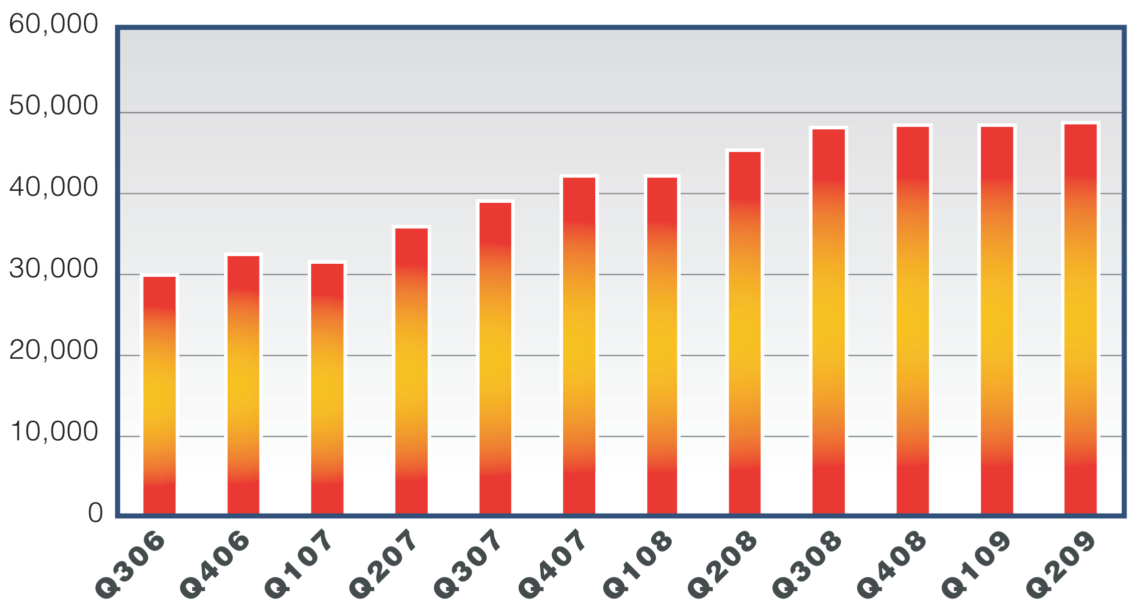
Management Discussion and Analysis (Continued)

1. Analysis on the Industry *(continued)*

During the reporting period, the TFT-LCD panel's prospects looked quite promising, which effectively promoted the potentials of the LCD-related components including glass substrates and CCFL backlight modules, thereby offering significant room for development in the future for the Group's businesses in glass substrates and luminous materials.

The global market size for TFT-LCD glass substrates approached 150,000,000 square meters in 2007, representing a year-on-year increase of 30%. Moreover, as a result of the strong demand, there was supply shortage of glass substrates experienced in 2007. As the PRC is becoming the major production base for TFT-LCD globally, further investments in new panel lines or operations expansions were emerging. This boosted the demand for TFT-LCD glass substrates to 7,780,000 square meters in the PRC in 2007, representing a year-on-year increase of 45%. However, since production line on glass substrates still does not exist in the PRC, there is positive outlook for the glass substrates industry in the PRC.

Market demand for global TFT-LCD glass substrates (1,000 sq.m)



Source: iSuppli, 2008Q1

Management Discussion and Analysis (Continued)

1. Analysis on the Industry *(continued)*

Luminous materials are another strength of the Group's current business, especially in the areas of energy saving lamp phosphor, CCFL phosphor and PDP phosphor. There were good development prospects in the luminous materials markets for these segments in 2007. For the markets of energy saving lamps and energy saving lamp phosphor, the PRC's standing as the largest global production base of energy saving lamps was strengthened in 2007, with 2,900,000,000 units of energy saving lamps produced during the year, representing a year-on-year increase of 18% and boosting the domestic output volume of lamp phosphor to 3,500 tonnes in 2007. For the market of CCFL phosphor, being the core technological content for large-sized LCD panels adopting the backlight modules, the global output volume of CCFL backlight modules for large-sized LCD panels reached 346,000,000 units in 2007, representing a year-on-year increase of 22% ; of which, more than half were manufactured in the PRC. This undoubtedly brought enormous commercial opportunities for the current almost non-existent CCFL phosphor industry in the PRC.

In respect of the metallic components aspects, during the reporting period, benefiting from the booming consumer market of home appliances and vehicles, their supplementary market segments such as stamped metal parts, high precision corrosive parts, high precision masks and special moulds indicated growth trends to different extent. As such, not only will these products attain substantial market growth and investment potentials, they will also earn higher added value to the product.

Management Discussion and Analysis (Continued)

1. Analysis on the Industry *(continued)*

Going forward, in 2008, the Group, as a leading enterprise in the CPT industry, will further enhance the competitiveness of its CPT business and ensure its sound operations in the area of CPT and its component business in 2008 through its comprehensive supplementary services, effective cost control and branding-oriented marketing. Further, the national policy of "Promotion of Household Appliances towards Rural Areas" as decreed by the PRC Government at the end of 2007 will have positive impact on the Group's CPT business.

In the new business fields of electronic glass that the Company is embarking on, the domestic and international markets for TFT-LCD glass substrates over the coming few years will maintain steady growth, especially in the PRC market which will experience apparent sellers' market. It is estimated that the market demand will reach 12,790,000 square metres in 2010, favouring promotion of the Group's business in this area.

In the field of luminous materials, the PRC Government recently decreed a policy of fiscal subsidy and on government purchases specific for energy saving lamps. This will accelerate the growth of the domestic industry of energy saving lamps, which will provide positive drive to the Group's business on energy saving lamp phosphor. The Company estimates that the domestic market of energy saving lamp phosphor will reach 4,000 tonnes in 2008. While the market of CCFL backlight modules for LCD display is forecasted to maintain a steady growth, the output volume of CCFL backlight modules for large-sized LCD panels is expected to reach 390,000,000 units in 2008 and an annual growth rate of 13.6% is expected to be maintained thereafter. Further, with more and more production lines of CCFL backlight modules being transferred to the PRC, it is anticipated that there will be tremendous market opportunities for the Group's CCFL phosphor business.

2. Business Review

(1) Operation Highlights

The sales revenue of the Group in 2007 was RMB3,358,990,000, a decrease of RMB502,720,000 from 2006. Operating profit in 2007 was RMB94,178,000, representing a decrease of RMB156,159,000 as compared to 2006. Gross profit margin was 10.60%, representing a decrease of 2.5 percentage points as compared to the previous year (2006: 13.09%). Profits attributable to equity holders amounted to RMB66,511,000 in 2007, representing a decrease of RMB63,001,000 from 2006.

Management Discussion and Analysis (Continued)

2. Business Review *(continued)*

(2) Display Devices Businesses

- CPT and components business

In 2007, the Group managed to attain a record high in its production and sales. The Group sold 15,327,000 units of CPT in total in 2007, representing an increase of 304,000 units, or approximately 2.03%, relative to 2006. The Group's output volume of CPT increased by 5 percentage points in 2007 and accounted for 27.3% of the total output volume of the PRC CPT manufacturers, securing its leading position in the industry. The Group's global market share rose by 1.8 percentage points to 13.8% over last year, being the third largest globally.

In 2007, the Group continued to adopt a series of operational strategies including cost-focused, marketing-driven and technology innovation initiatives to further enhance the Group's competitiveness in the CPT sector. The Group has also reinforced its cost competitiveness through measures including target cost management, technological upgrade, energy saving and emission control. We also strengthened controls over the market forecast aspects as well as initiatives to expand the international market and achieved satisfactory sales results. With regard to technology innovation, we have commenced mass production of our new product of 74cmPFAK CPT, while critical technological breakthrough has been achieved on the 54cmPFUS super slim, 61cmWPF super slim and 74cmPF slim new CPT products which are expected to commence production in 2008. As a result, the Group's product mix is further enhanced.

In 2007, the Group obtained satisfactory results in environmental protection as well as emission reduction. The Group put more emphasis on its environmental protection and emission reduction efforts, established special task force, formulated recycling and emission reduction plans and defined various policies.

- FPD business

The joint investment project on PDP production line between the Group and Sichuan Changhong Electrical Group Co., Ltd. commenced construction on 29 April 2007. Various aspects of the project were progressing smoothly. Meanwhile, the Group also takes initiatives in planning the industry development on other FPD devices .

Management Discussion and Analysis (Continued)

2. Business Review *(continued)*

(3) TFT-LCD Electronic Glass Substrate Business

The TFT-LCD glass substrate project commenced construction on 16 January 2007. The phase I project required investment of RMB800 million in building a production line of glass substrates for the fifth-generation TFT-LCD with an annual production capacity of 750,000 square meters. The project was initially established and concocted by IRICO Group Corporation in which the Company has entered into an equity acquisition agreement with IRICO Group Corporation in acquiring interests in Shaanxi IRICO Electronics Glass Co., Ltd. and such acquisition is close to completion.

To-date, the project is progressing smoothly. The glass furnace was ignited and heated up as scheduled on 28 December 2007 while production commenced in late March, 2008. The first unit of TFT-LCD glass substrate is expected to roll out in the first half of 2008, which will be the first unit of TFT-LCD glass substrate manufactured by a PRC enterprise in a self-sustained manner. Product certification and exchanges about technological specifications have attained a milestone development with the downstream panel manufacturers. The Group will become a major TFT-LCD electronic glass manufacturer.

(4) Luminous Materials Business

The Group's sales of energy saving lamp phosphor in 2007 increased by 90% over 2006, accounting for 22% of the PRC market share in 2007, relative to 17% in 2006, and continued to maintain the domestic leading position. In 2007, the production capacity expansion for energy saving lamp phosphor was completed, raising the annual production capacity to 1,000 tonnes, which will further increase our market share on energy saving lamp phosphor. After enormous efforts of and repeated testings by our technicians, CCFL phosphor had received customer recognition, realizing the first batch supply of 3.73 tonnes. There will also be further development potentials for new products such as PDP phosphor.

(5) Metallic Components Business

The Group established a metallic components department in 2007, which had integrated the human and equipment resources of various subsidiary companies in the metallic punching and processing functions, aiming to optimize resources allocation, business expansion, competitive edge and efficiency. Currently, the Group is actively seeking development opportunities in the metallic component sectors including vehicles, aircraft and home appliances, some of which have already attained progress.

Management Discussion and Analysis (Continued)

3. Future Prospects

Following the global trend of evolution of the display device technology, the Group is shifting its business focus from the traditional CPT business to the thriving FPD devices and its related components. A new business structure of the Group comprising display device components, electronic glass, luminous materials and metallic components has already been formed.

The Group will soon complete the equity acquisition of the TFT-LCD glass substrate project from IRICO Group Corporation, thereafter the Group will become the first TFT-LCD glass substrate manufacturer in the PRC. Upon the successful launch of phase I of the project, the Group will soon initiate phase II of the project, which will render us to become a major TFT-LCD glass substrate manufacturer in the industry.

The Group will continue to reinforce its leading manufacturer position in the global luminous materials sector. Following further expansion in the energy saving lamp phosphor business and rapid development of new products including CCFL phosphor and PDP phosphor, the luminous materials business of the Group will be further advanced.

The Group will maintain its leading position in the CPT industry domestically and internationally. Through a series of operational strategies including marketing-driven, technology innovation and cost-focused initiatives, the competitiveness of our CPT business will continue to improve, bringing stable cash flow to the Company and providing a good foundation for the Group's next step of strategic transformation.

Management Discussion and Analysis (Continued)

4. Financial Review

(1) Results performance

Profit and loss data for 2003 - 2007 *(RMB'000)*

	2003	2004	2005	2006	2007
Turnover	4,269,781	4,949,683	3,927,500	3,861,710	**3,358,990**
Sales of CPTs	3,888,156	4,466,767	3,441,096	3,342,888	**2,914,351**
Sales of CPT components	381,625	482,916	486,404	518,822	**444,639**
Cost of sales	(3,256,959)	(3,896,956)	(4,357,371)	(3,356,160)	**(3,002,987)**
Gross profit	1,012,822	1,052,727	(429,871)	505,550	**356,003**
Operating expenses					
Administrative expenses	(227,275)	(219,008)	(278,875)	(241,113)	**236,132**
a) General administrative expenses	(195,665)	(172,028)	(241,935)	(215,196)	**213,454**
b) Research and development expenses	(31,610)	(46,980)	(36,940)	(25,917)	**(22,678)**
Distribution expensses	(103,405)	(113,323)	(152,565)	(150,343)	**(162,073)**
Other operating expenses	(73,604)	(79,275)	(36,968)	(38,381)	**(42,055)**
Operating profit	679,766	713,020	(839,381)	250,337	**94,178**
Finance costs	(56,588)	(62,966)	(70,096)	(61,849)	**(66,729)**
Profit for the year	315,825	385,327	(754,547)	129,512	**66,511**

Management Discussion and Analysis (Continued)

4. Financial Review *(continued)*

(1) Results performance *(Continued)*

Turnover by product *(RMB'000)*

Name		2007	2006	Increase/ (decrease)	Percentage of change
CPTs		**2,914,351**	3,342,888	(428,536)	(12.82%)
Including:	Small-sized CPTs	**536,149**	660,975	(124,826)	(18.89%)
	Medium-sized CPTs	**2,233,224**	2,673,542	(440,318)	(16.47%)
	Large-sized CPTs	**144,978**	8,370	136,608	1,632.08%
CPT components		**444,639**	518,822	(74,184)	(14.30%)
Total		**3,358,990**	3,861,710	(502,720)	(13.02%)

Sales volume by product *(Unit)*

Name		2007	2006	Increase/ (decrease)	Percentage of change
Including:	Small-sized CPTs	**4,494,320**	4,727,121	(232,801)	(4.92%)
	Medium-sized CPTs	**10,478,558**	10,279,499	199,059	1.94%
	Large-sized CPTs	**353,946**	15,996	337,950	2112.72%
Total		**15,326,824**	15,022,616	304,208	2.03%

ASP by product *(RMB/Unit)*

Name		2007	2006	Increase/ (decrease)	Percentage of change
Including:	Small-sized CPTs	**119**	140	(21)	(14.68%)
	Medium-sized CPTs	**213**	260	(47)	(18.06%)
	Large-sized CPTs	**410**	523	(114)	(21.72%)

Management Discussion and Analysis (Continued)

4. Financial Review *(continued)*

(2) Change over last year and reasons

- In 2007, the Group recorded a turnover of RMB3,358,990,000, representing a decrease of RMB502,720,000, or 13.02% from 2006. Turnover of the CPT business amounted to RMB2,914,351,000, representing a year-on-year decrease of 12.82% from 2006. Turnover of the component business decreased by RMB74,184,000, or 14.30% to RMB444,639,000. The overall gross profit margin of the Group decreased from 13.09% of 2006 to 10.60% of 2007. In 2007, the supply of CPT in the market was greater than the demand thereof resulting in falling sales price of CPT and loss in gross profit. The Company enhanced the product mix and strengthened various cost reduction measures.

- Administrative expenses

  The Group's administrative expenses in 2007 decreased by RMB4,981,000, or 2.07%, to RMB236,132,000 from RMB241,113,000 of 2006. The decrease in administrative expenses was mainly due to adjustment arising from deducting the difference of employee benefits accrual for the year 2007 from the balance of employee benefits in accordance with the accounting standards.

- Finance costs

  The Group's finance costs for 2007 recorded RMB66,729,000, representing an increase of RMB4,880,000, or 7.89%, from RMB61,849,000 of 2006, which was mainly attributable to increases in bank loans as well as loan interest rate during the year.

Management Discussion and Analysis (Continued)

4. Financial Review *(continued)*

(3) Net current assets and financial resources

As at 31 December 2007, the Group's cash and bank balances aggregated to RMB363,617,000, representing a decrease of 24.17% from RMB479,503,000 as at 31 December 2006. As at 31 December 2007, the Group's borrowings totalled RMB962,684,000 as compared to RMB932,676,000 as at 31 December 2006. The borrowings would all be due within one year.

As at 31 December 2007, the Group's short-term bank loans amounting to approximately RMB200,000,000 (as at 31 December 2006: RMB140,000,000) were secured by the Group's properties, plants and equipment with a net book value of RMB195,538,000 (as at 31 December 2006: RMB205,027,000). As at 31 December 2007, the short-term bank loans guaranteed by the Company's ultimate holding company, IRICO Group Corporation, amounted to RMB250,500,000 (as at 31 December 2006: RMB640,000,000).

For the year ended 31 December 2007, the turnover for accounts receivable of the Group was 157 days, representing an increase of 16 days from141 days for the year ended 31 December 2006, which was mainly attributable to a slight increase of sales towards the end of the year. This resulted in an increase in the account receivables balance due within three months. For the year ended 31 December 2007, the inventory turnover for the Group was 84 days, representing an increase of 15 days from 69 days for the year ended 31 December 2006, which was mainly attributable to the more intense competition in the CPT market.

(4) Capital Structure

As at 31 December 2007, the Group's borrowings were mainly denominated in Renminbi and US dollar, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollar and US dollar. The Group intends to maintain a suitable ratio of share capital to liabilities, to ensure an effective capital structure from time to time. As at 31 December 2007, its liabilities including bank loans aggregated to RMB1,783,723,000 while cash and bank balances totalled RMB363,617,000 and a gearing ratio (total liabilities/total assets) was 35%.

Management Discussion and Analysis (Continued)

4. Financial Review *(continued)*

(5) Dividend

The Company's dividend policy will remain unchanged. In light of the absence of accumulated surplus in 2007, the board of directors resolved not to distribute any final dividend.

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollar. For the 12 months ended 31 December 2007, exchange rate fluctuations resulted in an increase in operating costs of RMB6,820,000.

(7) Commitments

As at 31 December 2007, capital commitments of the Group amounted to RMB27,550,000 (31 December 2006: RMB153,810,000), which were mainly financed by the Group's working capital.

(8) Contingent liability

As at 31 December 2007, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2007, the Group had bank loans of RMB200,000,000, secured by its properties, plants and equipment with a net book value of approximately RMB195,538,000.

Profiles of Directors, Supervisors and Senior Management

Directors

Executive Directors

Xing Daoqin	53	Chairman
Tao Kui	55	Vice Chairman
Guo Mengquan	51	
Zhang Shaowen	46	
Niu Xinan	47	
Li Shikun	47	Chief Financial Officer

Non-executive Director

Zhang Xingxi*	51

Independent Non-executive Directors

Xu Xinzhong*	44
Feng Bing*	41
Wang Jialu	47
Lv Hua*	51
Zhong Pengrong*	55

* Member of the Audit Committee

Profiles of Directors, Supervisors and Senior Management (Continued)

Directors *(continued)*

Mr. Xing Daoqin (邢道欽), aged 53, is an Executive Director and the Chairman of the Company. Mr. Xing joined the Company in February 1982. He graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor degree in automation. In 1996, Mr. Xing was awarded a special government allowance for experts by the State Council of the PRC. He is a senior engineer at a professor level. Mr. Xing was the deputy general manager of IRICO Group Corporation since March 2001 and has been the general manager of IRICO Group Corporation since July 2005. Before that, he was the factory manager of Caihong Glass Factory under CPT Plant, the head of the Electronic Glass Department of IRICO Group Corporation and the deputy factory manager of CPT Plant. Since November 2007, Mr. Xing has served as the Chairman of IRICO Display Devices Co., Ltd.

Mr. Tao Kui (陶魁), aged 55, is an Executive Director and the Vice Chairman of the Company. Mr. Tao had joined the Company in September 1978. He graduated from South East University (東南大學) (formerly known as Nanjing Institute of Technology) with a bachelor degree in electrical vacuum devices and is qualified as a senior engineer. Mr. Tao acted as a director of IRICO Group Corporation from November 1995 to February 2001 and as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the phosphor powder factory and the glass factory under Shaanxi CPT Plant, a director of IRICO Group Corporation and the deputy factory manager of CPT Plant.

Mr. Guo Mengquan (郭盟權), aged 51, is an Executive Director. Mr. Guo joined the Company in September 1983. He graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor degree in control and manipulation of aviation fluid mechanics and from Shaanxi MBA College with an MBA degree. He is a senior engineer at a professor level. Mr. Guo has been acting as the deputy general manger of IRICO Group Corporation since March 2001 and was the Chairman of IRICO Group Electronics Company Limited from August 2005 to December 2007. Before that, he was the factory manager of the glass plant under CPT Plant. Since November 2007, Mr. Guo has served as the Vice Chairman of IRICO Display Devices Co., Ltd.

Mr. Zhang Shaowen (張少文), aged 46, is an Executive Director. He is responsible for technology management of the Company. Mr. Zhang joined the Company in August 1981. He graduated from the Party School of Shaanxi Provincial Committee (陝西省委黨校) with a bachelor degree in economic management. He is a senior engineer. Mr. Zhang has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the shadow masks factory and the No. 1 CPT Plant under CPT Plant.

Profiles of Directors, Supervisors and Senior Management (Continued)

Directors *(continued)*

Mr. Niu Xinan (牛新安), aged 47, was appointed as an Executive Director of the Company on 26 June 2006. Mr. Niu joined the Company in August 1981. He graduated from Northwestern University (西北大學) with a bachelor degree in administrative management and is a senior engineer. Mr. Niu has been serving as the party's Vice-secretary and Secretary to the disciplinary committee of IRICO Group Corporation. In June 2002, he was elected as the Chairman of the labor union of IRICO Group Corporation. Before that, Mr. Niu was the factory manager of No. 1 CPT factory under Shaanxi CPT Plant and the deputy director of its design institute, the manager of Display Devices Department and the factory manager of No. 1 CPT factory under Shaanxi CPT Plant, the factory manager of the Inner Mongolia Television Factory (內蒙古電視機廠) and the deputy factory manager of CPT Plant. Mr. Niu was appointed as a supervisor of the Company in the first general meeting of the Company on 9 September 2004 and was elected the chairman of the Supervisory Committee of the Company in its first meeting. He retired from the positions of the chairman of the Supervisory Committee and supervisor in the third meeting of the first Supervisory Committee on 5 August 2005.

Mr. Li Shikun (李世坤), aged 47, is currently an Executive Director, the Chief Financial Controller of the Company and an accountant. He was appointed as the vice president and investment director of Trade Management Incorporation from 2005 to February 2007. From 2003 to 2005, he was President and Vice President of the operation management of Beijing headquarter of North West Securities. From 2004 to 2007, he was also the deputy secretary of Capital Enterprise Reform and Development Research Society (首都企業改革與發展研究會). From 2001 to 2003, he was the General Manager of Beijing Yushi Rongxin Investment Consultancy Limited (北京喻世融信投資顧問公司). From 1996 to 2001, he was Vice President of Tairun Investment Management Company (泰潤投資管理公司). From 1997 to 1998, he was a professional researcher in China Academy of Social Science specialized in monetary banks. From 1993 to 1995, he was the Beijing Chief Representative of Canada Lin's Group. From 1990 to 1993, he was the financial controller of Kenang Company (科能公司) of Chinese Academy of Science. From 1983 to 1989, he had worked in Langfang Hubei Province of Administrative Office (河北省廊坊行政公署) (currently known as Langfang Municipal Government).

Mr. Zhang Xingxi (仉興喜), aged 51, is a Non-executive Director of the Company. Mr. Zhang joined the Company in August 1981. He graduated from the Faculty of Economics at Beijing Normal University (北京師範大學) with the postgraduate study in business administration. He was the general manager of Caihong Hotel (彩虹賓館) in Xianyang City, Shaanxi Province, the general manager of Hainan Caihong Industrial and Trading Corporation (海南彩虹工貿總公司), the manager of both the Audit Department, Human Resources Department, Chief Economist and the manager of the Estate Management Department of IRICO Group Corporation.

Profiles of Directors, Supervisors and Senior Management (Continued)

Directors *(continued)*

Mr. Xu Xinzhong (徐信忠), aged 44, is an Independent Non-executive Director of the Company and currently a professor in Finance in Guanghua Management College of Beijing University and Dean of its Faculty of Finance. Mr. Xu joined the Company in September 2004. Mr. Xu obtained his bachelor degree in meteorology from Beijing University (北京大學), his MBA degree from Aston University in the United Kingdom and his doctoral degree in finance from Lancaster University in the United Kingdom. He worked as a lecturer and senior lecturer of the Faculty of Accounting and Finance at Manchester University in the United Kingdom and was a professor and a chair in Finance of the Faculty of Management at Lancaster University in the United Kingdom. Mr. Xu has been acting as a professor of Guanghua Management College of Beijing University and Dean of its Faculty of Finance since January 2002. Mr. Xu was also awarded the Prize for the Best Manuscript (最佳論文獎) by British Accounting Review in 1997.

Mr. Feng Bing (馮兵), aged 41, is an Independent Non-executive Director of the Company and currently an Executive Director and the deputy general manager of China Financial and Consulting Company (中華財務諮詢公司). Mr. Feng joined the Company in September 2004. He obtained his bachelor degree in computer software from Northwestern Polytechnical University, his master degree in engineering from Calculation Technology Research Institute of Chinese Academy of Sciences (中國科學院計算技術研究所) and his master's of science degree in finance from the School of Management at Syracuse University. He was a part-time tutor in optional practical training of the Faculty of Commerce at Syracuse University and a senior manager of Deloitte Touche Tohmatsu in the United States.

Mr. Wang Jialu (王家路), aged 47, is an Independent Non-executive Director of the Company and a partner of Commerce & Finance Law Office (通商律師事務所). Mr. Wang joined the Company in September 2004. He completed his course for master degree in business administration from Guanghua Management College of Beijing University and the course for juris doctor from Marburg University of Germany, and received his MBA degree from Beijing University and the LLM degree from the law school of Marburg University of Germany. He is an arbitrator in the Beijing Arbitration Commission (北京仲裁委員會) and an adjunct lecturer for master degree course in the Law Faculty of Beijing University.

Mr. Lv Hua (呂樺), aged 51, is an Independent Non-executive Director of the Company. He has a Phd degree. He is a certified accountant and a certified tax consultant in the PRC. He currently serves as the chairman (chief accountant) of Xian Xigema Certified Public Accountant Firm Limited as well as the vice chairman of Shaanxi Certified Public Accountants Association (陝西省註冊會計師協會), the vice chairman of Shaanxi Asset Appraisal Association, the executive member of Shaanxi Research Society of Restructuring the Economic Systems (陝西省體制改革研究會) and the vice chairman of General Chamber of Commerce of Xian City (西安市商業聯合會). He was consecutively awarded various titles such as "Excellent Youth Entrepreneur in Shaanxi Province" (陝西省傑出青年實業家), "New Long March Pioneer of Shaanxi Province" (陝西省新長征突擊手), "Top Ten News Figures of Finance and Financial System in Shaanxi Province" (陝西省財政、金融系統十大新聞人物) and "Top 10 Excellent Economic Figures of Shaanxi" (陝西十大傑出經濟人物).

Profiles of Directors, Supervisors and Senior Management (Continued)

Directors *(continued)*

Mr. Zhong Pengrong (鍾朋榮), aged 55, an Independent Non-executive Director of the Company. Mr. Zhong is the chairman of Beijing Shiye Consultancy Centre as well as professors of various universities such as Northwest University, Central University of Finance and Economics and Zhongnan University of Economics and Law. He also works as an economic consultant for numerous sizable enterprises and regional governments, formulating strategic proposal and restructuring proposal of over a hundred of enterprises alongside strategic development plans for more than sixty cities at regional and county level. Mr. Zhong graduated at the Zhongnan University of Economics and Law and was awarded a master degree of economic problems and direction of the PRC (中國經濟問題方向). Apart from working in the investigation and research office of the Central Office (中央辦公廳調研室), he has also issued hundreds of essays on economy on news papers such as "People's Daily", "Economic Daily, PRC" and "Guang Ming Daily". Various books written by him were published, such as "100 National Measures" (百條治國大計), "Macro-economic theory" (宏觀經濟論) and "Research on inflation in China" (中國通貨膨脹研究).

Supervisors

Mr. Fu Jiuquan(符九全), aged 38, was appointed as the Chairman of Supervisory Committee of the Company with effect from 5 August 2005 and currently the deputy chief accountant of IRICO Group Corporation. Mr. Fu joined in July 1990 the Company. Mr. Fu graduated from Guilin Electronic Industry College (桂林電子工業學院) with a bachelor degree in finance and accounting. He is a senior accountant. He was appointed as the director of the Finance Division of CPT Plant and the manager of the Assets Finance Department of IRICO Group Corporation.

Mr. Zhang Weichuan (張渭川), aged 53, was appointed as an employee Supervisor with effect from 10 September 2004. He graduated from Northwestern Telecommunication Engineering College (西北電訊工程學院) with a bachelor degree in electrical vacuum devices. He is a senior engineer at a researcher level. He joined the Company in August 1978 and has served as the director of the Quality Assurance Department of CPT Plant, the deputy chief engineer of CPT Plant, the manager of the Technology and Quality Department of the IRICO Group Corporation and the manager of the Strategic Planning Department of the Company.

Mr. Zhang Zhankui (張佔奎), aged 57, was appointed as a shareholder Supervisor of the Company with effect from 26 June 2006. Mr. Zhang graduated from Chengdu Telecommunication Engineering College (成都電訊工程學院) with a bachelor degree in electronic engineering specialized equipment and automation and is a senior engineer. He joined the Company in August 1982. Mr. Zhang is currently the Chief of the Supervisory Division of IRICO Group Corporation. He was the deputy factory manager and factory manager of the power factory, head of Power and Energy Operation Division, deputy chief engineer and head of Human Education Division of CPT Plant, factory manager of No. 1 Xi'an Wireless Communication Plant, general manager of Xi'an IRICO Electronic Industrial Co. Ltd., and head of Human Resources Department of IRICO Group Corporation.

Profiles of Directors, Supervisors and Senior Management (Continued)

Supervisors *(continued)*

Mr. Sun Haiying(孫海鷹), aged 64, was appointed as an independent Supervisor with effect from 10 September 2004 and is currently the head and a professor of the Environmental Science and Engineering Technical Centre of Xi'an Jiaotong University, a member of the Standing Committee of the Chinese People's Political Consultative Conference and the head of the Department of Science and Technology of Shaanxi Province, an adjunct professor of the Institute for Enterprises of the Hong Kong Polytechnic University. Mr. Sun graduated from the Northwestern University in geography and was director of the Shaanxi Province Meteorological Bureau (陝西省氣象局), the director of Shaanxi Province Science and Technology Department (陝西省科學技術廳). He was a group leader of the Planning Strategy Study Group under the State Mid- and Long-term Science and Technology Development Planning Team (國家中長期科學和技術發展規劃領導小組的規劃戰略研究專題組) in August 2004.

Ms. Wu Xiaoguang (吳曉光), aged 50, was appointed as an independent Supervisor with effect from 10 September 2004. She is currently a deputy professor of the Management Faculty at Xi'an Jiaotong University. She received her bachelor degree in economics from the Economic Management College of Northwestern University. She was a graduate majoring in accounting in management school of Xian Jiaotong University, and was awarded a master degree of business administration upon graduation at the Faculty of Business of The Hong Kong Polytechnic University. Ms. Wu is a part-time professor of the Chinese (Hainan) Reform and Development Research Institute (中國(海南)改革發展研究院), the chairman and general manager of Xi'an Wanguantong Financial Management Consulting Co., Ltd., an expert consultant of Shaanxi Province Venture Capital Association. She holds positions as expert consultant in Beijing Jinrui Junan Taxation Co, China Tax Consulting Information Web, China Industry and Economic News Web and Beijing Zhongbao Weiye Information Consulting Firm.

Profiles of Directors, Supervisors and Senior Management (Continued)

Senior Management

Mr. Zhang Junhua (**張君華**), aged 49, is the President of the Company. He is fully responsible for management on the Company's operation. Mr. Zhang joined the Company in December 1984. He graduated from Shaanxi Mechanical College with a bachelor's degree in machinery manufacturing and is a senor engineer. At present, he serves as chairman of Xi'an New Century Club, chairman and general manager of Xianyang IRICO Digital Display Technology Co., Ltd and chairman of Xi'an Caihui Display Technology Co., Ltd. Before that, he had acted as deputy head and head of Metering & Energy-Conservation Department of No. 2 CPT Factory under CPT Plant, assistant to the general manager, the deputy general manager, general manager and vice chairman of IRICO Display Devices Co., Ltd. He was the Vice President of the Company from 5 August 2005 to December 2007.

Mr. Zhang Chunning (**張春寧**), aged 48, is the Vice President of the Company. He is responsible for the operation of production, safety and environmental protection, technology and quality and innovation of new products respectively. Mr. Zhang graduated from the Faculty of Chemistry at Northwestern University in 1985 with a bachelor degree in science (chemistry) and from Xi'an Jiaotong University with a master degree in management (business administration). He is now pursuing his doctorate education in management (business administration) at Xi'an Jiaotong University. Mr. Zhang joined the Company in 1985. He has 16 years of business and management experience in the CPT industry. Before that, he was the deputy officer and officer of the No. 2 Factory under Shaanxi CPT Plant, the acting factory manager and factory manager of Caihong Phosphor Factory under CPT Plant, the general manager of Shaanxi IRICO Phosphor Materials Co., Ltd. (陝西彩虹螢光材料有限公司), the assistant to the president of the Company and the Joint Company Secretary of the Company.

Mr. Zou Changfu (**鄒昌福**), aged 49, is the assistant to the president of the Company and is engaged in purchasing materials. Mr. Zou was born in 1959 and received a degree in engineering and is a senior engineer. He was the general manager in the head office of IRICO Kunshan Holdings (彩虹昆山實業) and the chairman of IRICO Yingguang Electrics Limited Company (彩虹櫻光電子股份公司). He has been the general manager of the Purchase Department of the Company since December 2005.

Mr. Ge Di (**葛迪**), aged 49, is the assistant to the president of the Company and mainly engages in purchasing in the Metal Part Department. Mr. Ge, born in 1959, is a senior engineer with a college degree. He was the factory manager of CPT Plant from 2003 to March 2007. Furthermore, he has been the supervisor of IRICO Display Devices Co., Ltd. since September 2005, the manager of Metal Part Department of IRICO Group Electronics Company Limited since March 2007, the chairman of Cai Qin Electrical Devices Company Limited (彩秦電子器件有限公司) since March 2007.

Profiles of Directors, Supervisors and Senior Management (Continued)

Senior Management *(continued)*

Mr. Wei Xiaojun (魏小軍), aged 50, is currently acting as the assistant to the president and mainly engages in innovative business management. Mr. Wei was born in 1958. He obtained a degree of engineering and is a senior engineer. He was the general manager of head office in Shanxi IRICO General Service Corporation Co., Ltd. from 2003 to November 2005; the general manager of IRICO Kunshan Holdings Limited (昆山彩虹實業有限公司).

Mr. Liu Xiaodong (劉曉東), aged 36, is currently the Joint Company Secretary of the Company. He is responsible for the securities management, the legal matters and investors' relationship of the Company. Born in 1972, he graduated at Economic Management College of Northwestern University with a Phd degree and is a senior economist. He held positions as the technician and management staff of No.1 CPT Plant under CPT Plant, secretary to the general manager of IRICO Group Corporation. Since March 2002, he has been the secretary to the board of IRICO Display Devices Co., Ltd. Since January 2008, he has been the Joint Company Secretary of IRICO Group Electronics Company Limited.

Mr. Lam Chun Lung (林晉龍), aged 35, was appointed as the Company's qualified accountant and Joint Company Secretary with effect from 26 August 2006. Mr. Lam graduated from The Hong Kong University of Science and Technology with a first honour bachelor degree in business administration (accounting) in May 1998, and from the City University of Hong Kong with a master degree in business administration in July 2006. He had been the head of auditing in S C To & Co. (杜昭紹會計師事務所) and accounts and finance manager of Colliers Jardine International. Mr. Lam is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

Changes of Directors, Supervisors and Senior Management

On details of changes of directors, supervisors and senior management, please refer to the "Directors, Supervisors and Senior Management" section within the Report of the Directors.

Report of the Directors

The Board hereby presents the report of the Directors and the audited financial report of the Group for the year ended 31 December 2007 to the shareholders.

Principal operations

The Group is principally engaged in the production and sales of display devices (CPT and FPD) and its components, electronic glass, phosphor materials and metallic products.

Results and dividend

The sales of the Group in 2007 was RMB3,358,990,000, operating profit was RMB94,178,000, gross profit margin was10.60% and profit attributable to equity holders amounted to RMB66,511,000.

The annual results of the Group for the year ended 31 December 2007 and its financial status as at the same day prepared in accordance with accounting principles generally accepted in Hong Kong are set out on page 65 to 161 of this annual report.

The Company's dividend policy will remain unchanged. In light of the absence of accumulated surplus in 2007, the Board has decided not to distribute any final dividend.

Charitable contributions

In 2007, the Group made charitable donations in a sum of approximately RMB140,000 (2006: nil).

Five year financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five years, as extracted from the audited financial statements and adjusted (if applicable), is set out on page 161 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of the movements of property, plant and equipment of the Group in the year are set out in note 17 to the financial statements.

Report of the Directors (Continued)

Share capital

Details of the changes in the Company's share capital, together with the reasons therefor, are set out in note 31 to the financial statements.

Purchase, redemption and sale of shares of the Company

Save as disclosed in this annual report, neither has the Company nor any of its subsidiaries purchased, redeemed or sold any of its shares during the year.

Reserves

Details of the movements of reserves of the Company and of the Group during the year are set out in note 32 to the financial statements.

Major customers and suppliers

The percentage of purchases from and sales to the major suppliers and customers of the Group is set out as follows:

Purchase

— largest supplier 3.6%

— five largest suppliers 13.4%

Sales

— largest customer 15.5%

— five largest customers 50.7%

Due to the variety of the Company's production materials, the Company has not yet identified an established supplier with strength sufficient to provide a relatively high proportion of raw materials. Hence, the five largest suppliers represent 13.4% in total. None of the Directors, their respective associates or any shareholder who, as far as the Directors are aware, holds 5% or more of the Company equity interests had any interest in the above-mentioned major suppliers and customers.

Report of the Directors (Continued)

Directors, Supervisors and Senior Management

Directors and Supervisors of the Company for the year were as follows:

Executive Directors:

Xing Daoqin	*Chairman*	re-appointed on 9 September 2007 (Term of office of last session expired)
Tao Kui	*Vice Chairman*	re-appointed on 9 September 2007 (Term of office of last session expired)
Guo Mengquan		re-appointed on 9 September 2007 (Term of office of last session expired)
Zhang Shaowen		re-appointed on 9 September 2007 (Term of office of last session expired)
Niu Xinan		re-appointed on 9 September 2007 (Term of office of last session expired)
Li Shikun	*Chief Financial Controller*	appointed on 9 September 2007

Non-executive Directors:

Zhang Xingxi	re-appointed on 9 September 2007 (Term of office of last session expired)
Yun Dahjiunn	resigned on 8 September 2007

Independent Non-executive Directors:

Xu Xinzhong	re-appointed on 9 September 2007 (Term of office of last session expired)
Feng Bing	re-appointed on 9 September 2007 (Term of office of last session expired)
Wang Jialu	re-appointed on 9 September 2007 (Term of office of last session expired)
Lv Hua	appointed on 9 September 2007
Zhong Pengrong	appointed on 9 September 2007
Feng Fei	resigned on 8 September 2007
Zha Jianqui	resigned on 8 September 2007

Supervisors:

Fu Jiuquan	re-appointed on 9 September 2007 (Term of office of last session expired)
Zhang Zhankui	re-appointed on 9 September 2007 (Term of office of last session expired)
Zhang Weichuan	re-appointed on 9 September 2007 (Term of office of last session expired)
Sun Haiying	re-appointed on 9 September 2007 (Term of office of last session expired)
Wu Xiaoguang	re-appointed on 9 September 2007 (Term of office of last session expired)

Brief biographical details of Directors, Supervisors and Senior Management are set out on page 21 to 28.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in Rule 3.13 of the Listing Rules concerning his independence pursuant to Rule 3.15 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

Report of the Directors (Continued)

Directors, Supervisors and Senior Management *(continued)*

The existing Second Session of the board of Directors (the "Board") and Supervisory Committee of the Company were elected at the general meeting held on 20 August 2007, with a term of 3 years. Upon expiry of their term of office, the Drectors and Supervisors can offer themselves for re-election at the general meeting.

The term of directorship of twelve Directors of the First Session of the Board expired on 8 September 2007, nine of them were re-elected as Directors of the Second Session of the Board with effect from 9 September 2007, including Xing Daoqin, Tao Kui, Guo Mengquan, Zhang Shaowen, Niu Xinan, Zhang Xingxi, Feng Bing, Xu Xinzhong and Wang Jialu while Zhong Pengrong, Li Shikun and Lv Hua were appointed as new Directors of the Second Session of the Board in replacement of three Directors (Yun Dah Jiunn, Feng Fei, Zha Jianqiu) whose terms had expired.

On 8 September 2007, the term of office of five Supervisors of the First Session of the Supervisory Committee of the Company expired, and all of the five Supervisors (Fu Jiuquan, Zhang Zhankui, Zhang Weichuan, Sun Haiying, Wu Xiaoguang) were re-elected as Supervisors of the Second Session of the Supervisory Committee.

On 27 December 2007, Mr. Guo Mengquan resigned from the office as President of the Company, and Mr. Wang Ximin and Mr. Li Miao respectively resigned from the office as Vice President of the Company. The original Vice President Mr. Zhang Junhua was appointed as President of the Company, and the original Joint Company Secretary Mr. Zhang Chunning was appointed as the Vice-President of the Company. On 28 December 2007, the Company also appointed respectively Mr. Zou Changfu, Mr. Ge Di and Mr. Wei Xiaojun respectively as Assistants to the President. On 18 January 2008, Mr. Liu Xiaodong was appointed as the Joing Company Secretary of the Company. Mr. Lam Chun Lung will remain as the other Joint Company Secretary of the Company.

Report of the Directors (Continued)

Remuneration of Directors and the five highest paid individuals

Details of the remuneration of directors and the five highest paid individuals of the Group are set out in note 10 to the financial statements.

There were no arrangements under which a Director or Supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31 December 2007.

Share Appreciation Rights Plan

Pursuant to the Share Appreciation Rights Plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), up to 31 December 2007, the following Directors, Supervisor and senior management members were granted share appreciation rights by the Company as follows:

Name	**Number of Share Appreciation Rights** *(Shares)*	**Note**
Xing Daoqin	2,200,000	Director
Tao Kui	1,860,000	Director
Guo Mengquan	1,660,000	Director
Zhang Shaowen	1,400,000	Director
Niu Xinan	800,000	Director
Li Shikun	300,000	Director
Zhang Weichuan	520,000	Supervisor
Zhang Junhua	890,000	Senior Management
Zhang Chunning	970,000	Senior Management
Zou Changfu	720,000	Senior Management
Wei Xiaojun	400,000	Senior Management
Ge Di	820,000	Senior Management

Report of the Directors (Continued)

Share Appreciation Rights Plan *(continued)*

Note: In 2008, the Company also granted share appreciation rights to the following Directors, Supervisors and senior management.

Directors: Mr. Xing Daoqin for 700,000 shares, Mr. Tao Kui for 530,000 shares, Mr. Guo Mengquan for 400,000 shares, Mr. Zhang Shaowen for 400,000 shares, Mr. Niu Xinan for 400,000 shares. Supervisors: Mr. Fu Jiuquan for 650,000 shares and Mr. Zhang Weichuan for 400,000 shares; and senior management: Mr. Zhang Junhua for 530,000 shares, Mr. Zhang Chunning for 300,000 shares, Mr. Zou Changfu for 300,000 shares, Mr. Ge Di for 300,000 shares, Mr. Wei Xiaojun for 300,000 shares and Mr. Liu Xiandong for 300,000 shares.

Directors' and Supervisors' interests in contracts

At end of the year and any time during the year, save for the service contract in relation to the Company's business, none of the Company, its holding company or subsidiaries entered into any contract of significance in which the Director or Supervisor of the Company held, either directly or indirectly, any material interest.

Directors' and Supervisors' Service contracts

Each of the Directors and Supervisors has entered into a service contract with the Company. No Director or Supervisor of the Company has entered into a service contract with the Company which is not terminable by the employer within a year without payment of any compensation (other than statutory compensation).

Report of the Directors (Continued)

Interests and short positions of Directors, Chief Executive and Supervisors in shares of the Company or its associated corporations

Save as the interests mentioned in the section headed "Share Appreciation Rights Plan" above, during the year ended 31 December 2007, none of the Directors, or chief executive or supervisors or their respective associates had any interests or short positions in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are (a) required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO; (b) required to be recorded in the register of interests kept by the Company pursuant to section 352 of the SFO; (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which was effective from 30 June 2006.

During the year ended 31 December 2007, none of the Directors, chief executive, supervisors, senior management, their spouses or children under the age of 18 was given the right to acquire shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

Interests and short positions of substantial shareholders and other parties

So far as the Directors are aware, each of the following persons, not being a Director, chief executive Supervisor, or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2007 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC Nominees Limited had interests in 484,529,990 H Shares of the Company (representing 99.84% of the H Share capital).

Notes:

As at 31 December 2007, based on the information available to Directors and so far as the Directors are aware, HKSCC Nominees Limited held 484,529,990 H Shares, among which:

Derby Steven P., Goldfard Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

J.P. Morgan Chase & Co. through its controlled corporations had interests in 33,742,000 H Shares of the Company (representing approximately 6.95% of the H Share capital).

Report of the Directors (Continued)

Interests and short positions of substantial shareholders and other parties *(continued)*

Montpelier Asset Management Limited had interests in 30,294,000 H Shares of the Company (representing approximately 6.24% of the H Share capital).

Pictet Asset Management Limited on behalf of Pictet Funds Asian Equities had direct interests in 27,488,000 H Shares of the Company (representing approximately 5.66% of the H Share capital).

Atlantis Investment Management Ltd had interests in 24,500,000 H Shares of the Company (representing approximately 5.05% of the H Share capital).

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Designated deposit and overdue time deposit

As at 31 December 2007, the Group had no designated deposits in any financial institutions in the PRC. All of the Group's bank deposits are lodged in commercial banks in the PRC, and are in compliance with the relevant laws and regulations. There were also no instances where the Group had failed to collect any of the time deposits upon maturity.

Employees, Retirement benefits and Other benefits

As at 31 December 2007, the Group had 9,218* employees with various talents, of whom approximately 5.5% were management and administrative personnel, 7.5% were technological personnel, 0.9% were accounting and audit personnel, 0.8% were sales and marketing personnel, 82.5% were production employees and 2.8% were others. The employment and remuneration policy including retirement benefits and other benefits of the Company remained the same as set out in the Company's prospectus dated 8 December 2004. With full enthusiasm in work, the Group's employees are committed to ensure the high quality and reliability of products and services.

*: Excluding service despatch worker.

Report of the Directors (Continued)

Connected transactions

The connected transactions recorded during the year and up to the date of this report are as follows:

1. Continuing connected transactions during the year

For the year ended 31 December 2006, there were various continuing connected transactions between the Group and IRICO Group Corporation, IRICO Display Technology Co., Ltd. ("IRICO Display"), Xianyang IRICO Electronics Shadow Mask Co., Ltd. ("IRICO Shadow Mask"), Shaanxi Rainbow Phosphor Material Co., Ltd. ("IRICO Phosphor"), Xianyang Cailian Packaging Material Company Limited ("Xiangyang Cailian"), details of which are set out in the Company's prospectus dated 8 December 2004.

Pursuant to Rule 14A.43(3) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the otherwise applicable announcement and/or independent shareholders' approval requirements in connection with these continuing connected transactions (the "Waiver").

Report of the Directors (Continued)

Connected transactions *(continued)*

1. Continuing connected transactions during the year *(continued)*

For the year ended 31 December 2007, the approved annual cap and the actual revenue or expenditure in respect of each of the continuing connected transactions are set out below:

Item		Approved annual cap for 2007 *RMB'000*	Transaction amount for 2007 *RMB'000*
(i)	Supply of fuel, coal, industrial chemicals products and raw materials to IRICO Group Corporation	75,500	25,092
(ii)	Supply of parts and raw materials to IRICO Display, IRICO Phosphor and IRICO Shadow Mask	797,800	419,589
(iii)	Purchase of foam plastics, gloves, wood brackets and raw materials from IRICO Group Corporation	121,000	120,468
(iv)	Purchase of phosphor and shadown mask from IRICO Phosphor and IRICO Shadow Mask	240,000	162,166
(v)	Purchase of packaging materials, adhesive tapes and plastic materials from Xianyang Cailian	54,400	42,531
(vi)	Utilities obtained from IRICO Group Corporation	620,000	397,229
(vii)	Social and ancillary services obtained from IRICO Group Corporation		
	(a) IRICO School	—	—
	(b) Social welfare facilities	2,240	—
	(c) Security services	800	—
	(d) Environmental hygiene and landscaping services	1,200	100
(viii)	Rental payable to IRICO Group Corporation	46,234	35,742
(ix)	Land use rights leasing fees payable to IRICO Group Corporation	4,603	4,536
(x)	Trademark licensing fees payable to IRICO Group Corporation	4,500	3,476

Report of the Directors (Continued)

Connected transactions *(continued)*

1. Continuing connected transactions during the year *(continued)*

The Independent Non-executive Directors had reviewed these continuing connected transactions and confirmed to the Board that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had provided a letter to the Directors of the Company confirming that the continuing connected transactions:

(1) had received the approval by the Board of the Company;

(2) were in accordance with the pricing policies of the Company;

(3) had been entered into in accordance with the relevant agreements governing these transactions; and

(4) had not exceeded the caps set out in the Waiver.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in the Waiver and Chapter 14A of the Listing Rules.

2. One-off Connected transactions

(a) As mentioned in the announcement of the Company dated 7 March 2007, the Company entered into an agreement with IRICO Shadow Mask, a subsidiary of the Company, of which the Company held 75% equity interest, pursuant to which the Company transferred to IRICO Shadow Mask all the equipment for shadow mask production and other related equipment held by the Company before entering into such agreement (the "Shadow Mask Agreement"). The Shadow Mask Agreement was effective on the date when it was signed (please refer to the announcement of the Company dated 7 March 2007 for the relevant terms of the Shadow Mask Agreement).

Report of the Directors (Continued)

Connected transactions *(continued)*

2. One-off Connected transactions *(continued)*

(b) As mentioned in the announcement of the Company dated 1 August 2007, the Company and/ or its connected parties entered into the following transactions:

(i) On 27 July 2007, IRICO Display and Xian Caihui Display Technology Co., Ltd. ("Caihui") entered into the IRICO Display Transfer Agreement in respect of the transfer of the Kinescope Assets by IRICO Display to Caihui. As disclosed in the Company's announcement dated 28 February 2008, the transaction under the IRICO Display Transfer Agreement has been completed.

(ii) (a) On 27 July 2007, A Share Company and IRICO Group Corporation ("Group Corporation") entered into: (i) the A-P New Century Agreement regarding the transfer by A Share Company of its 41.67% equity interest in Xian New Century International Club Co., Ltd. ("New Century") to the Group Corporation ; and (ii) the A-P K-Line Agreement regarding the transfer by A Share Company of its 49% equity interest in Xianyang IRICO Digital Display Co., Ltd. ("K-Line Company") to the Group Corporation and (b) on 27 July 2007, the Company and the Group Corporation entered into the H-P K-Line Agreement in respect of the transfer by the Company of its 51% equity interest in K-Line Company to the Group Corporation. As disclosed in the Company's announcement dated 28 February 2008, the transactions under the A-P New Century Agreement, the A-P K-Line Agreement and the H-P K-Line Agreement have been completed.

Report of the Directors (Continued)

Connected transactions *(continued)*

2. One-off Connected transactions *(continued)*

(c) As mentioned in the announcement of the Company dated 17 August 2007, the Company entered into an acquisition agreement with IRICO Group ("Acquisition Agreement"), pursuant to which IRICO Group agreed to sell and the Company agreed to purchase, subject to the fulfilment of certain conditions, the 69.53% equity interests held by IRICO Group in Shaanxi IRICO Electronics Glass Company Limited ("IRICO Glass") for a total consideration of approximately RMB279.58 million ("Acquisition"). Upon completion of the Acquisition, IRICO Glass will become a non-wholly owned subsidiary of the Company. The Acquisition Agreement will be effective when approval of the acquisition is obtained from the Independent Shareholders at the extraordinary general meeting of the Company and State-owned Assets Supervision and Administration Commission ("SASAC") respectively. To-date, the approval from the Independent shareholders has been obtained and the final approval of the Acquisition by SASAC, one of the conditions precedent to the Acquisition Agreement, is still under process and has not been obtained. The Company and IRICO Group have agreed in writing to extend the last date for fulfilling such conditions to 30 June 2008.

Bank loans

As at 31 December 2007, details of bank loans of the Group are set out in note 30 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or relevant laws and regulations which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 21 to the financial statements.

Report of the Directors (Continued)

External guarantee

The Group does not have any external guarantee during the year.

Provision for Impairment of Fixed Assets

The Board appointed an independent professional valuer to evaluate the value of the production facilities and construction in progress. A provision for impairment of property, plant and equipment of the Group amounting to approximately RMB2,630,000 was made for 2007 (2006: RMB67,205,000). Details of the provision for impairment of fixed assets and set out in note 17 to the financial statements.

Material litigation

As at 31 December 2007, save as disclosed below, the Directors were not aware of any other litigation or claim of material importance pending or threatened against any member of the Group.

1. The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company

In respect of the litigation between Xingyun and the Company previously disclosed, the status is as follows.

On 11 April 2007, the Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10) from the People's High Court of Shaanxi, and was informed that Xingyun brought an action for a second time against the Company in respect of the same matter.

The Company made a written submission to the Court denying all liabilities in response to the allegations made by Xingyun. The Company believes that Xingyun's claim for litigations had no legal and factual basis, therefore its claim should be dismissed. On 23 November 2007, the People's High Court of Shaanxi issued the civil verdict ((2007) Shaan Min Er Chu Zi No.10), the Court ruled that the claim by Xingyun against the Company demanding for compensation to its investment and other losses totalling RMB30,010,000 was not established and should be dismissed. At present, Xingyun has filed an appeal to the People's Supreme Court of the PRC. The Company has received a writ of summons from the People's Supreme Court on 15 April 2008.

Report of the Directors (Continued)

Material litigation *(continued)*

2. Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation").

In respect of the litigation with Baystar previously disclosed, the status is as follows.

The Company filed a motion for summary judgment on 15 May 2006. On 9 August 2006 the Court partly dismissed the motion.

Upon completion of the discovery procedure, summary judgment commenced for Core Pacific and Baystar. The Court granted Core Pacific's motion and dismissed the rights appeal that may be implied in all the litigations of Core Pacific. Shortly thereafter, Core Pacific approached the Company and offered to dismiss the claim for damages against the Company. No payment or compensation in respect of the litigation is required from the Company. The Company accepted the offer and signed the settlement proposal with the relevant parties on 5 October, 2007. Therefore, the litigation has ended.

The result of the above litigations has no material impact on the 2007 consolidated financial statement of the Group.

Contingent Liabilities

As at 31 December 2007, the Group had no significant contingent liabilities.

Code on Corporate Governance Practices

The Board has reviewed the documents regarding the Company's adoption of relevant corporate governance practices, and is of the opinion that the documents are in compliance with the principles and code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules. Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Directors are not aware of any information that would reasonably reflect the non-compliance of the Company or any of its Directors with the Code at any time in the year ended 31 December 2007. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code during such period.

Report of the Directors (Continued)

Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the relevant minimum percentage applicable to listed securities was maintained throughout the reporting period.

Audit Committee

The Audit Committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2007, including accounting principles adopted by the Group.

Auditors

The financial statements of the Company have been audited by SHINEWING (HK) CPA Limited who retire and, being eligible, offer themselves for re-appointment subject to approval by shareholders at the annual general meeting to be held on 30 June 2008.

The Company has appointed SHINEWING (HK) CPA Limited as the auditors of the Company at the annual general meeting held on 29 June 2007, in place of the retiring auditors of the Company, PricewaterhouseCoopers, Certified Public Accountants ("PwC"). The main reason for the proposed change of auditors is that the Company and PwC could not reach an agreement on the audit fees for the financial year ended 31 December 2007.

By order of the Board
Xing Daoqin
Chairman

Xianyang, the PRC
24 April 2008

Report of the Supervisory Committee

In 2007, in compliance with the Company Law of the People's Republic of China ("Company Law") and the Articles of Association of the Company, all members of the Supervisory Committee of the Company have complied with the principle of integrity, responsible to all shareholders and sincerely performed the duties of Supervisor to protect the interests of the shareholders. They supervised the operation and financial status of the Company and the performance of duties by the senior management in 2007. I hereby present the report of 2007 as follows:

In 2007, pursuant to the requirement of the Articles of Association, the Supervisory Committee reviewed financial reports regularly. In 2007, the Supervisory Committee held two meetings, to fully review the audited 2006 annual financial report and the 2007 interim financial report respectively of the Company, and to consider and pass the 2006 report of the Supervisory Committee. The convening of the two meetings was in compliance with the relevant requirements of the Company Law and the Articles of Association of the Company.

In 2007, the Supervisors of the Company attended all Board meetings and general meetings of the shareholders.

In respect of the details of change of session of the Supervisory Committee, refer to the "Directors, Supervisors and Senior Management" section within the Report of the Directors.

Pursuant to the PRC and other relevant laws and regulations and the Articles of Association of the Company, the Supervisory Committee performed serious supervision and examination on the procedures of Board meetings, resolutions, the execution by the Board of the resolutions passed in general meetings, the performance of duties by the senior management and the internal control system of the Company and its thorough execution.

Report of the Supervisory Committee (Continued)

The Supervisory Committee considered that the Directors and senior management of the Company operated strictly in compliance with the Company Law and Securities Law of the PRC, the Articles of Association of the Company and other relevant regulations and rules of Hong Kong. The Committee members performed their duties with integrity and diligence, and executed various resolutions and authorization passed in general meetings, to ensure that the operation of various businesses complies with the requirements of laws and regulations. Through the establishment of a series of rules, the Company further improved the corporate legal structure and the internal management system and established and improved the internal control system. In the process of the examination of the financial status of the Company and the supervision of the performance of the duties of the Directors and senior management of the Company, the Supervisory Committee did not find any behaviour in prejudice to the interest of the Company and the shareholders, nor any behaviour in contravention to laws and regulations, the Articles of Association of the Company and various rules and systems.

The Supervisory Committee is confident in the prospect of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the shareholders and the Company as a whole.

By order of the Supervisory Committee
Fu Jiuquan
Chairman of the Supervisory Committee

Xianyang, the PRC
24 April 2008

Corporate Governance Report

Sound corporate governance is the foundation for the healthy development of an enterprise as well as confidence for investors. In 2007, the Company persisted on good corporate governance principles, enhanced the standard of corporate governance and advanced the stability of operations and healthy development of the Company.

1. Corporate Governance Practices

Improvement of the internal control system was made by the Company by reviewing the Code on Corporate Governance Practices (the "Code") to cater for the constant development and evolvement of corporate governance.

The Code sets out the principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation;
- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply with. The Board has reviewed the Company's corporate governance practices. For the year ended 31 December 2007, the Company has adopted and complied with all the principles and Code Provisions and nearly all the Recommended Best Practices set out in the Code.

The Company has implemented the Code Provisions and nearly all the Recommended Best Practices in the Code. The Company's code on corporate governance practices includes, without limitation to, the Articles of Association passed at the shareholders' general meeting on 9 September 2004 and Work Rules for the Board, Organisation Rules for the Audit Committee, the Articles of the Nomination Committee, Organisation Rules for the Strategic Committee and Organisation Rules for the Remuneration Committee passed on 25 August 2005. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board as relevant work rules of the Company.

The Company's code on corporate governance practices exceeds the requirements of the Stock Exchange and is more strict than the Code Provisions set out in the Code in many aspects, which mainly include the following:

- The Company has established Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Committee.
- Apart from one Non-Executive director, all other members of the Audit Committee are Independent Non-Executive Directors.

Corporate Governance Report (Continued)

2. The Board

Duties of the Board

The Board is responsible for providing leadership and monitoring the Company's affairs. All Directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. The Board makes regular assessment on the management's business prospects and results as well as exercises other power in accordance with the Articles of Association, which mainly includes:

- To oversee the implementation of resolutions passed at shareholders' general meetings;
- To approve the Company's business plans and investment schemes;
- To formulate the Company's annual financial budget schemes;
- To formulate the Company's profit distribution plan;
- To formulate the Company's basic management system;
- To approve the Company's accounting policies and adjustment to the same;
- To approve various announcements including financial statements.

Corporate Governance Report (Continued)

2. The Board *(continued)*

Constitution

During the reporting period, the second Board comprising 12 Directors was elected in the extraordinary general meeting held on 20 August 2007, which includes 1 Non-executive Director, 5 Independent Non-executive Directors and 6 Executive Directors. All Directors must retire at the third annual general meeting after being appointed and are then eligible for re-election. Newly appointed Directors are subject to election at the first general meeting after being appointed. The personal information of the Directors are set out in the section headed Profile of the Directors and Senior Management of this report. The same information is also set out in the website of the Company.

Directors are elected in general meetings with a term of three years from the date of their elections until the expiry of their terms.

All Directors shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a Director has a conflict interest in any proposal under consideration, such Director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires Directors to confirm whether there is any connected transaction between the Directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

The Independent Non-executive Directors of the Company possess wide professional expertise and experience, and can fully perform their important function of supervision and balance to protect the interests of the shareholders and the Company as a whole. There are five (over one-third) Independent Non-executive Directors. In determining the independence of a Non-executive Director, the Director is considered independent only after the Broad have confirmed that there is not any direct or indirect material relationship between the Director and the Company. A Director is considered not independent after he/she has been a Director over nine years. The Board considers that the Independent Non-executive Directors are able to make independent judgment effectively and satisfy the guideline on assessing independence set out in Rule 3.13 of the Listing Rules.

The Company complies with the requirement concerning the appointment of sufficient Independent Non-executive Directors and that at least one of them should possess appropriate professional qualification or accounting or relevant financial expertise set out Rule 3.10(1) and 3.10(2).

The Company has made appropriate arrangement to insure against the possible legal action that the Directors and senior management may be involved. The Board reviews annually on the insurance arrangement.

Corporate Governance Report (Continued)

2. The Board *(continued)*

The Chairman and the Chief Executive

The Chairman is responsible for operation and management of the Board while the President takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, roles of the Chairman and the President are explicitly differentiated. The Chairman is taken up by Xing Daoqin and the President is taken up by Zhang Junhua. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the performance of Board being in the best interests of the Company.

Under the assistance of the Vice President and the assistants to the President, the President is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the Company's overall operation. As the chief manager of the Company's day-to-day affairs, the President is responsible for the annual business plan and investment schemes and formulation of the Company's basic management rules. He/She also takes the direct responsibility for the Company's operation.

The President, the Vice President, the assistants to the President and the Chief Financial Controller make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees' access to complete, reliable and proper information so that the Directors can make decisions with adequate information and to ensure proper implementation of the Board's resolutions. The President monitors the Company's operation and financial results with a view to plans and budget and passes on their opinions to the Board on material events.

Joint Company Secretary

The Joint Company Secretary reports to the Board. All Directors are entitled to the Joint Company Secretary's services. He / She shall notify the Board the latest information on governance and oversight on a regular basis, assist the Chairman of the Board in preparation of the agenda, and prepare and despatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and validity of the Board meetings. Under the assistance of the Company's lawyer, the Joint Company Secretary is in charge of announcement of annual and interim reports and information disclosure in accordance with the Listing Rules and relevant rules of the Company. He / She makes a regular enquiry to the Company's financial department for information on connected transactions to secure the compliance with Listing Rules in respect of such transactions.

2. The Board *(continued)*

Joint Company Secretary *(continued)*

The Joint Company Secretary is also in charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which will be provided and disclosed to all Directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by Directors shall be minuted in details. Within a reasonable timeframe upon closing a meeting, a minute draft shall be despatched to all Directors for their comments.

Board meetings

The Chairman is responsible for approving agenda of each Board meeting and effectually convenes the Board meeting, taking into consideration, where appropriate, other matters proposed by Directors for inclusion in the agenda. Assisted by the Company Secretary, the Chairman seeks to ensure all Directors' proper access to accurate, timely and sufficient information on the proposals to be considered by the Board to enable their wise decisions. While a 14 days' notice of a regular Board meeting is given, the agenda and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the Directors to be fully engaged in the Board's affairs and make contributions to the functions of the Board. The Board adopts sound corporate governance practices and procedures and takes appropriate steps to inspire the Directors' open and frank communication so as to ensure Non-executive Directors' enquiries with each Executive Director and communication between them are effective.

It is expressly provided in the Work Rules for the Board that, in the event that a substantial shareholder or Director of the Company has a conflict of interests in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any Director who has a conflict of interests in the matters to be considered shall abstain from voting.

Corporate Governance Report (Continued)

2. The Board *(continued)*

Board meetings *(continued)*

Five Board meetings are held in 2007. The details of attendance at Board meetings are as follows:

Directors	**Board meeting** (times of attendance in person / times of meetings held during the office of the directors)
Xing Daoqin	5/5
Tao Kui	5/5
Guo Mengquan	3/5
Zhang Shaowen	3/5
Niu Xinan	4/5
Li Shikun*	1/1
Zhang Xingxi	5/5
Yun Dah Jiunn**	2/4
Feng Fei**	2/4
Xu Xinzhong	4/5
Feng Bing	4/5
Wang Jialu	3/5
Zha Jianqiu**	3/4
Lv Hua*	0/1
Zhong Pengrong*	1/1

Note: *assumed office on 9 September 2007; ** left on 8 September 2007.

In accordance with the Articles of Association, Directors, when necessary, may propose to convene an extraordinary Board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company.

2. The Board *(continued)*

Board committees

Four specialized committees are established under the Board, namely the Strategic Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Their terms of reference are determined in accordance with the principles set out in the Code. The Board committees report to the Board. In order to perform their duties, the Board committees have the authority to appoint lawyers, investment bank, accountants or other professionals to provide professional advice if necessary, the expenses of which are borne by the Company.

Nomination Committee

The Nomination Committee is chaired by Mr. Xing Daoqin. The committee members include Mr. Tao Kui, Mr. Guo Mengquan, Mr. Niu Xinan, Mr. Feng Bing, Mr. Xu Xinzhong and Mr. Wang Jialu. The committee provides the Board with its advice on appointment of directors, assessment of the Board's composition and re-election of the Board in accordance with certain agreed standards. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity and commitment of adequate time. The Nomination Committee is responsible for choosing and recommendation of director candidates, including consideration of recommendations by others and, when necessary, making use of public recruitment.

By reference to the Recommendation A.4 of the Code, the Board formulated the Organisation Rules of the Nomination Committee.

In 2007, the Nomination Committee held one meeting to consider the candidates for the new senior management (President, Vice President and Secretary to the Board) of IRICO together with the proposal to be approved by the Board. The attendance details of each of the committee members of the Nomination Committee in 2007 are as follows:

Directors	**Meetings of Nomination Committee** (times of attendance in person / times of meetings held)
Xing Daoqin	1/1
Tao Kui	1/1
Guo Mengquan	1/1
Niu Xinan	1/1
Xu Xinzhong	1/1
Feng Bing	1/1
Wang Jialu	0/1

Corporate Governance Report (Continued)

2. The Board *(continued)*

Audit Committee

The Audit Committee assumes the responsibilities for audit of the Company's financial reports, review of internal control and corporate governance work and provision of relevant advice to the Board. Independent Non-executive Directors represent four fifths of the members of the Audit Committee. The Audit Committee is chaired by Mr. Lv Hua, an Independent Non-executive Director. Mr. Lv has proper qualifications and financial experience (Mr. Lv was appointed as the Company's Director and Chairman of the Audit Committee on 9 September 2007. Mr. Zha Jianqiu was the previous Chairman of the Audit Department and left his office on 8 September 2007).

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and C.3 of the Code, the Board has formulated the Organisation Rules of the Audit Committee.

In 2007, the Audit Committee convened five meetings with an average attendance rate of 100%. The senior management and external auditors were invited to these meetings.

In 2007, the Audit Committee:

- reviewed the Company's financial statements and interim results announcement for the six months ended 30 June 2007, together with the proposals to be approved by the Board;
- considered the financial statements and the annual results announcement of the Company for the year ended 31 December 2006, together with the proposals to be approved by the Board;
- considered the report in relation to the execution of connected transactions for the year ended 31 December 2006, together with the proposals to be approved by the Board;
- considered the audit fees and remuneration payable to the external auditors for the year ended 31 December 2007, together with the proposals for the auditors' re-appointment to be approved by the Board;
- reviewed matters in relation to audit, internal control and financial reporting with the senior management and external auditors of the Company.

2. The Board *(continued)*

Audit Committee *(continued)*

The attendance details are as follows:

Directors	**Meetings of Audit Committee** (times of attendance in person / times of meetings held during the respective office of the directors)
Zhang Xingxi	5/5
Xu Xinzhong	5/5
Feng Bing	5/5
Feng Fei**	5/5
Zha Jianqiu**	5/5
Zhong Pengrong*	0/0
Lv Hua*	0/0

Note: *assumed office on 9 September 2007; ** left on 8 September 2007.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tao Kui. The committee members include Mr. Zhang Shaowen, Mr. Wang Jialu and Mr. Lv Hua.

The Remuneration Committee is responsible for approval of remuneration policies for all directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. Each year, the committee reviews the current remuneration policy and proposes to the Board to change the remuneration policy and system. It also assists the Company to formulate fair and transparent remuneration policies for directors and senior management and determination of their remuneration.

During the reporting period, the Remuneration Committee conducted a written resolution and passed the Directors' and senior management's share appreciation rights plan for the year. During the year, all committee members of the Remuneration Committee conducted more than three informal discussions on the remuneration-related affairs.

Remuneration policy for Executive Directors: The remuneration portfolio policy for Executive Directors is designed to link Executive Directors' remuneration with their performance and the Company's missions to inspire their performance and re-election. In accordance with the Articles of Association, directors may not determine or approve their own remunerations.

Corporate Governance Report (Continued)

2. The Board *(continued)*

Remuneration Committee *(continued)*

The five Executive Directors of the Company are the functionaries who fall within the management of the state-owned Asset Supervision and Administration of the State Council, and hence are subject to Provisional Management Methods for Remunerations of Enterprise Representatives and Provisional Assessment Methods for Appraisal of Operating Results of Enterprise Representatives issued in 2004. These five directors' remunerations consist of basic salary, performance-linked salary and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is determined by reference to the business scale of the enterprise, responsibilities, and the average salary of local enterprises, the industry and the enterprise itself. The performance-basic salary is linked with the operating results appraisal and based on the performance-linked salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. After the appraisal results are obtained, 60% of the performance-linked salary is paid while the payment of the remaining 40% will be deferred to the second year of re-election or resignation.

Based on their individual performance and the Company's operating status, the Remuneration Committee approved the share appreciation rights to be granted to the Executive Directors pursuant to the share appreciation rights plan as approved by shareholders.

Remuneration policy for Non-executive Directors: Remunerations of Non-executive Directors are subject to approval by the Company's shareholders' general meeting and determined after taking into consideration of the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Company and the Non-executive Directors, the Company pays Non-executive Directors the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

Corporate Governance Report (Continued)

2. The Board *(continued)*

Remuneration Committee *(continued)*

A director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each director of the Company in 2007 were as follows:

Name	Position	Currency	2007 Remuneration and allowance	2007 Director's fee	2007 Retirement benefits contribution	Remarks
Xing Daoqin	Chairman	RMB	281,933.50		13,087.26	
Tao Kui	Vice Chairman	RMB	281,831.50		13,087.26	
Guo Mengquan	Director	RMB	253,596.00		13,087.26	
Zhang Shaowen	Director	RMB	249,046.50		13,087.26	
Niu Xinan	Director	RMB	—	—	—	not received remuneration from the Company
Li Shikun	Executive Director, Chief Financial Controller	RMB	305,000.00	—	—	
Zhang Xingxi	Non-Executive Director	RMB	—	—	—	not received remuneration from the Company
Xu Xinzhong	Independent Director	RMB	—	100,000	—	
Feng Bing	Independent Director	RMB	—	100,000	—	
Wang Jialu	Independent Director	RMB	—	100,000	—	
Lv Hua	Independent Director	RMB	—	—	—	not received remuneration in the reporting period as a director of the Company
Zhong Pengrong	Independent Director	RMB	—	—	—	not received remuneration in the reporting period as a director of the Company
Zha Jianqiu	Former independent director	RMB	—	100,000	—	left on 8 September 2007
Feng Fei	Former independent director	RMB	—	100,000	—	left on 8 September 2007
Yun Dah Jiunn	Former director	RMB	—	—	—	left on 8 September 2007
Sub-total		RMB	1,371,407.50	500,000.00	52,349.04	
		HKD	—	—	—	

Corporate Governance Report (Continued)

2. The Board *(continued)*

Remuneration Committee *(continued)*

Pursuant to applicable regulations of the PRC, the Company currently participates in a series of pension schemes organized by the provincial and municipal governments, pursuant to which all production plants of Company must contribute to such pension schemes according to certain proportions of the salaries, bonus and various allowance of the employees. As the production plants are located in different regions, the proportion of the contributions to the remuneration of the employees are also different.

3. Statement of financial responsibility of the Board

The Board prepares the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial statements as well as the efficiency of the Company's internal control system and risk management process. The President is responsible for the daily management of the operation of the Company. The Board makes periodic reviews on the functions of and the rights authorised to the President to ensure such arrangements are proper and in compliance with the Articles of Association.

The Directors confirmed their responsibility to prepare financial statements for the Company for each financial year, to report truly and fairly on the financial status of the Group, and to comply with applicable accounting standards and adopt appropriate accounting policies in the preparation of the financial statements. The Directors are responsible for the safe-keeping of the accounts of the Company which disclose the financial status of the Company in reasonable accuracy and assist the Company in preparing financial statements in accordance with laws, regulations and applicable accounting standards.

For auditors' reporting responsibilities, please refer to the auditors' report.

4. Securities transactions by Directors

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company. The Model Code is also applicable to special employees who may have certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, any director of the Company is delivered a Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and one month prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the Directors that they may not deal in the Company's shares until the results announcement.

All Directors of the Company confirm that as at 31 December 2007, all Directors and the specific employees who may have certain price sensitive information that has not been disclosed complied with the Model Code and none of the said persons has interests or short positions which are required to notify the Company and the Stock Exchange, or incur any conduct in violation of regulations.

5. Control mechanism

Internal control and internal audit

Internal control system

The Board is fully in charge of the Company's internal control system. It is responsible for ensuring the Company has adequate internal control systems to monitor its overall financial and operational status, hence avoiding material financial omission or loss and omission or risk in relation to operation controls. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system. In 2007, the Company enhanced the quality of its internal control system which operated effectively during the year. The Company also audited the effectiveness of the internal control system, which includes controls over finance, operations, regulation compliance and risk management. Relevant results have been reported to the Board through the Audit Committee.

The Company's internal control system plays a key role in risk management which is crucial for the achievement of its business objectives. The internal control system and work process are formulated to prevent unauthorised use or disposal of the Company's assets and to ensure proper maintenance of true and adequate accounting records and relating financial information. While the internal control procedures are designed to manage and properly control, but not remove, the risks of failing to achieve business objectives. The Company's internal control provides reasonable, but not absolute, assurance against material mis-statement or loss.

Corporate Governance Report (Continued)

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

Internal control system *(continued)*

The Board confirms that the Company has set up procedures and systems for efficient recognition, assessment and management of material operating risks with support from Board committees and senior management. The Audit Committee believes that the Company's internal control system and accounting system are designed to safeguard the security of material assets, to facilitate the recognition and monitoring of the Company's operating risks, the execution of material transactions under management's authorisation and the reliable disclosure of financial statements; and that the established control system is functioning constantly to identify, evaluate and manage the material risks faced by the Company.

Internal audit

The Company has set up an internal audit department, which is responsible for overseeing the Company's internal controls, ensures the achievement of the corporate goals and conducts independent reviews.

The internal audit department gives its prudent opinion as to whether the Company's operations have a comprehensive and efficient risk management system and reports to the Audit Committee accordingly. In 2007, all internal audit reports and opinions are submitted to the President, the Chief Financial Controller and other Executive Directors of the Company as well as the senior management of the department being audited. The audit department also follows up on the issues identified during the audit and conducts follow-up audit to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditors so that both are aware of the significant factors that may affect their respective scope of work.

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

Risk management

One of the Board's responsibilities is to raise the risk awareness across the Company's business operations. The Board properly implements the operating risk management procedures across the Company and formulates policies and procedures which provide a framework for identification and management of risks. The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment of the risk management system of the Company;
- identification, assessment and management of the material risks faced by various units of the Company;
- review and assessment of the adequacy of the Company's risk management process, system and internal control;
- review and monitoring of compliance with the Company's risk management process, system and internal control including compliance with prudential and legal requirements governing the business of the Company.

The risk management activities include review of detailed financial and operational reports, budgets and business plans provided by the management, review by the Board of actual results against the budgets, ongoing work of the internal audit function and regular business audits by Executive Directors and the executive management teams of each core business division. While the said procedures are designed to identify and manage the risks which may impose adverse impact on realization of the Group's business prospects, they do not provide absolute assurance against any material mis-statement or loss.

Corporate Governance Report (Continued)

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

Risk management *(continued)*

The Board is fully in charge of overseeing the operations of the Company's business units. Personnel with proper experience and skills are appointed to the board of directors of the Company's subsidiaries and associated companies to attend their board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting of key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are left to the management of such companies.

Executive Directors hold monthly meetings with executive and business senior management members to review the integrated financial status and operations against the budgets and estimation and to estimate and evaluate risk factors so as to formulate and adjust business strategies.

External auditors and their remuneration

As approved in the annual general meeting held on 29 June 2007, the Board appointed Shinewing (HK) CPA Limited as the auditors of the Company, to replace the retiring auditors of the Company, PricewaterhouseCoopers, Certified Public Accountants ("PwC"). The main reason for the change of auditors is that the Company and PwC could not reach an agreement on the audit fees for the financial year ended 31 December 2007.

The Audit Committee reviewed the letter from Shinewing (HK) CPA Limited to confirm its independence and objectiveness, held meetings with the firm to discuss the audit scope and fees, and approved scope and fees for any non-audit service provided by the firm.

For the year ended 31 December 2007, the remuneration of the external auditors amounted to RMB2,330,000, all of which was for audit service. No non-audit service fee was incurred for the year. The audit fee has been approved by the Audit Committee and the Board.

5. Control mechanism *(continued)*

Interests of shareholders and investor relations

General meeting

The Company encourages shareholders' attendance at shareholders' general meetings and gives at least a 45 days' notice of such meetings. The Chairman and Directors may attend the meetings to answer questions about the Company's businesses. All shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in the form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the annual general meeting are released in the form of announcements and set out on the respective websites of the Stock Exchange and the Company.

On 29 June 2007, the 2006 Annual General Meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province.

On 20 August 2007, an extraordinary general meeting was held at the conference room of the Company on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province.

On 24 October 2007, an extraordinary general meeting, H Shareholders Class Meeting and Domestic Shareholder Class Meeting were held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province.

On 1 November 2007, an extraordinary general meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province.

Details of the above general meetings are set out in the respective websites of the Stock Exchange and the Company.

The Company Secretary is responsible for day-to-day contacts between the Board and substantial shareholders. Investors and the public may access the Company's website for detailed information on the Company's businesses. The Company's interim and annual results announcements can also be downloaded from the Company's website.

According to the information available to the Company and as far as the Directors are aware, at least 25% of the Company's total issued share capital is held by public shareholders.

Corporate Governance Report (Continued)

5. Control mechanism *(continued)*

Information disclosure and investor relations

The Company formulated and implemented the Management Methods on Information Disclosure and the Rules for Investor Relations Management, aiming to further standardize its information disclosure system to ensure the accuracy, completeness and timeliness of information disclosure and to provide investors with high-quality services. The Board Office, with the Company Secretary as its head, formulates the procedures for gathering, verification and reporting of internal operating data and other information as well as the procedures for preparation and review of periodic reporting.

The Company undertakes that it shall make impartial disclosure and full and transparent reporting. The ultimate duty of the Chairman is to ensure efficient communication with the investors and the Board's understanding of the opinions of substantial shareholders. After the Company's announcement of its interim and annual results, the Board is committed to provide shareholders with clear and comprehensive results information of the Group by publishing interim and annual reports. The senior management shall preside over presentations and attend the meetings with institute investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. In addition, the Company arranges for roadshow for analysts and investors, from time to time, to foster intercommunication and understanding between the investors and the management of the Company. Field visits by analysts and investors are welcomed for inspecting plants and business premises of the Company. In 2007, the Company and investors and/or analysts held 15 meetings and 2 roadshows in Hong Kong and 1 roadshow in Japan.

The Company is committed to increase transparency and improve investor relations and has attached much importance to shareholders' responses in this regard. For any inquiry and advice, shareholders can contact the Company Secretary through the hotline (+86 29 3333 2866) or by email lxd@ch.com.cn or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Company Secretary for procedures concerning the convening of an annual general meeting or extraordinary general meeting and putting forward a proposal.

By order of the Board
Joint Company Secretaries
Liu Xiaodong
Lam ChunLung

Xianyang, Shaanxi
24 April 2008

Independent Auditor's Report

信永中和 ShineWing
SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
IRICO GROUP ELECTRONICS COMPANY LIMITED
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 67 to 160, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
24 April 2008

Consolidated Income Statement

Year Ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	8	**3,358,990**	3,861,710
Cost of sales		**(3,002,987)**	(3,356,160)
Gross profit		**356,003**	505,550
Other operating income	9	**178,435**	174,624
Selling and distribution costs		**(162,073)**	(150,343)
Administrative expenses		**(236,132)**	(241,113)
Other operating expenses		**(42,055)**	(38,381)
Finance costs	11	**(66,729)**	(61,849)
Share of results of associates	22	**9,093**	(945)
Gain on partial disposal of a subsidiary	21	**25,858**	—
Gain on disposal of a subsidiary	36	**1,969**	—
Gain on disposal of an associate	22	**16,208**	—
Profit before taxation		**80,577**	187,543
Taxation	12	**(8,420)**	(19,828)
Profit for the year	13	**72,157**	167,715
Attributable to:			
Equity holders of the Company		**66,511**	129,512
Minority interests		**5,646**	38,203
		72,157	167,715
Earnings per share (expressed in RMB per share) — basic	15	**0.03**	0.07
Dividend	16	**—**	—

Consolidated Balance Sheet

As at 31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
Non-current assets			
Property, plant and equipment	17	**2,009,640**	2,497,428
Investment property	18	**4,697**	—
Leasehold land and land use rights	19	**45,563**	35,971
Intangible assets	20	**4,433**	11,615
Interests in associates	22	**333,650**	232,220
Available-for-sale investments	23	**24,060**	24,060
		2,422,043	2,801,294
Current assets			
Inventories	24	**698,490**	631,915
Trade receivables	25	**1,463,798**	1,512,292
Other receivables, deposits and prepayments	26	**135,922**	66,053
Bank balances and cash	27	**363,617**	479,503
		2,661,827	2,689,763
Current liabilities			
Trade payables	28	**575,413**	575,718
Other payables and accruals	29	**215,313**	726,511
Tax payables		**4,305**	6,701
Current portion of long-term payables	35	**2,938**	2,347
Short-term bank borrowings	30	**962,684**	932,676
		1,760,653	2,243,953
Net current assets		**901,174**	445,810
		3,323,217	3,247,104

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	31	**1,941,174**	1,941,174
Other reserves	32	**766,146**	766,146
Accumulated losses		**(459,911)**	(526,422)
Equity attributable to equity holders of the Company		**2,247,409**	2,180,898
Minority interests		**1,052,738**	1,035,713
Total equity		**3,300,147**	3,216,611
Non-current liabilities			
Deferred income	33	**1,023**	4,344
Deferred income tax liabilities	34	**12,797**	15,577
Long-term payables	35	**9,250**	10,572
		23,070	30,493
		3,323,217	3,247,104

The consolidated financial statements on pages 67 to 160 were approved and authorised for issue by the Board of directors on 24 April 2008 and are signed on its behalf by:

Xing Daoqin	**Guo Mengquan**
Chairman	*Director*

Balance Sheet

Year Ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**803,483**	1,223,420
Intangible assets	20	**2,648**	9,402
Investments in subsidiaries	21	**1,036,496**	1,102,227
Investment in an associate	22	**360,000**	250,000
		2,202,627	2,585,049
Current assets			
Inventories	24	**273,623**	315,765
Trade receivables	25	**679,018**	585,872
Other receivables, deposits and prepayments	26	**84,938**	42,742
Loan to a subsidiary	21	**—**	40,000
Bank balances and cash	27	**160,821**	221,729
		1,198,400	1,206,108
Current liabilities			
Trade payables	28	**402,933**	377,258
Other payables and accruals	29	**181,924**	595,930
Current portion of long-term payables	35	**744**	962
Short-term bank borrowings	30	**628,684**	563,704
		1,214,285	1,537,854
Net current liabilities		**(15,885)**	(331,746)
		2,186,742	2,253,303

Balance Sheet

Year Ended 31 December 2007

	Notes	**2007** *RMB'000*	2006 *RMB'000*
Capital and reserves			
Share capital	31	**1,941,174**	1,941,174
Other reserves	32	**986,153**	986,153
Accumulated losses		**(748,114)**	(689,740)
Total equity		**2,179,213**	2,237,587
Non-current liabilities			
Deferred income	33	**—**	534
Deferred income tax liabilities	34	**5,403**	6,117
Long-term payables	35	**2,126**	9,065
		7,529	15,716
		2,186,742	2,253,303

Xing Daoqin
Chairman

Guo Mengquan
Director

Consolidated Statement of Changes in Equity

Year Ended 31 December 2007

		Attributable to equity holders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000	(Accumulated losses) / retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2006		1,941,174	944,402	(655,934)	2,229,642	830,984	3,060,626
Profit for the year		—	—	129,512	129,512	38,203	167,715
Negative reserve arising from share reform	32	—	(176,083)	—	(176,083)	191,022	14,939
Dividends declared to minority shareholders by certain subsidiaries		—	—	—	—	(19,770)	(19,770)
Acquisition of additional interests of a subsidiary from a minority shareholder		—	(2,173)	—	(2,173)	(4,726)	(6,899)
Balance at 31 December 2006 and 1 January 2007		1,941,174	766,146	(526,422)	2,180,898	1,035,713	3,216,611
Profit for the year		—	—	66,511	66,511	5,646	72,157
Dividends declared to minority shareholders by certain subsidiaries		—	—	—	—	(15,743)	(15,743)
Partial disposal of a subsidiary		—	—	—	—	27,122	27,122
Balance at 31 December 2007		1,941,174	766,146	(459,911)	2,247,409	1,052,738	3,300,147

Consolidated Cash Flow Statement

Year Ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**80,577**	187,543
Adjustments for:			
Impairment loss (reversal of impairment loss) on trade and other receivables		**1,300**	(1,580)
Write-down of inventories		**3,376**	1,720
Depreciation of property, plant and equipment and investment property		**290,281**	337,461
Amortisation of leasehold land and useful rights and intangible assets		**9,189**	7,907
Impairment loss on property, plant and equipment		**2,630**	67,205
Impairment loss on intangible assets		**—**	30,260
Net loss (gains) on disposal of property, plant and equipment		**142,609**	(21,748)
Dividend income from available-for-sale investment		**(566)**	—
Gains on disposal of intangible assets		**—**	(113,573)
Reversal of provision of staff welfare		**(72,488)**	—
Interest income		**(5,482)**	(6,521)
Finance costs		**66,729**	61,849
Reversal of write-down of inventories		**(10,678)**	—
Write off of an intangible asset		**241**	—
Share of results of associates		**(9,093)**	945
Amortisation of deferred income on grants received		**(3,321)**	(3,475)
Gain on disposal of an associate		**(16,208)**	—
Gain on partial disposal of a subsidiary		**(25,858)**	—
Gain on disposal of a subsidiary		**(1,969)**	—
Operating cash flow before movements in working capital		**451,269**	547,993
(Increase) decrease in inventories		**(62,087)**	55,807
Decrease (increase) in trade and other receivables, deposits and prepayments		**8,164**	(42,467)
Decrease in trade and other payables and accruals		**(411,881)**	(105,665)
Decrease in long-term payables		**(731)**	(5,586)
Cash generated from operations		**(15,266)**	450,082
Income tax paid		**(13,473)**	(24,943)
NET CASH FROM OPERATING ACTIVITIES		**(28,739)**	425,139

Consolidated Cash Flow Statement

Year Ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(133,861)**	(105,741)
Proceeds from disposal of a subsidiary	36	**130,613**	—
Contribution to / acquisition of an associate		**(110,000)**	(10,000)
Proceeds from partial disposal of a subsidiary		**52,980**	—
Proceeds from disposal of an associate		**31,411**	—
Decrease (Increase) in pledged bank deposits		**30,009**	(30,009)
Purchases of land use rights		**(12,396)**	—
Interest received		**5,482**	6,521
Dividend income received from available-for-sale investment		**566**	—
Purchase of an intangible assets		**(361)**	(6,905)
Dividend received from an associate		**360**	—
Proceeds on disposal of property, plant and equipment		**523**	1,489
Acquisition of additional interests of a subsidiary from a minority shareholder		**—**	(6,899)
NET CASH USED IN INVESTING ACTIVITIES		**(4,674)**	(151,544)
FINANCING ACTIVITIES			
Bank borrowings raised		**1,049,596**	743,292
Repayments of borrowings		**(1,019,588)**	(1,070,793)
Interest expense paid		**(66,729)**	(61,849)
Dividends paid to minority shareholders		**(15,743)**	(23,093)
Increase in amounts due to related parties and minority interests - non-trade		**—**	504
NET CASH USED IN FINANCING ACTIVITIES		**(52,464)**	(411,939)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(85,877)**	(138,344)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**449,494**	587,838
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCE AND CASH	27	**363,617**	449,494

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

1. GENERAL

IRICO Group Electronics Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 10 September 2004 as a joint stock company with limited liability under the PRC laws. The Company's shares were listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2004. The address of its registered office is No.1 Caihong Road, Xianyang, Shaanxi Province, PRC.

The Company and its subsidiaries (collectively referred to as the "Group") is engaged in the manufacturing of colour picture tubes ("CPTs") for colored television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc and provision of related packaging, engineering and trading services. The principal activities of its subsidiaries are set out in note 21.

The directors consider that IRICO Group Corporation, a state-owned enterprise established in the PRC, to be the Company's parent company and ultimate holding company.

These financial statements are presented in thousands of units of Renminbi ("RMB") which is the same as the functional currency of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2007.

Hong Kong Accounting Standard 1 ("HKAS") (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Company has not early applied the following new and revised standards, amendment interpretations that have been issued but are not yet effective as at 31 December 2007.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Cost[1]
HKAS 27 (Revised)	Consolidated and Separate Consolidated Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Conbinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-INT 12	Service Concession Arrangements[4]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009.

2 Effective for annual periods beginning on or after 1 July 2009.

3 Effective for annual periods beginning on or after 1 March 2007.

4 Effective for annual periods beginning on or after 1 January 2008.

5 Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring its accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Investments in subsidiaries

A subsidiary is an entity that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such entity so as to obtain benefits from its activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

In the Company's balance sheet, investment in an associate is stated at cost, as reduced by any identified impairment loss. The result of an associate is accounted for by the Company on the basis of dividends received and receivable during the year.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the period of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the right to receive the dividend is established.

(e) Property, plant and equipment

Properties, plant and equipment (other than construction in progress) at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of an item of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

An owner-occupied property is transferred to investment property at fair value because its use has changed as evidenced by end of owner-occupation. The difference between the fair value and the carrying amount at the date of transfer, if any, is recognised in property revaluation reserve in accordance with HKAS 16 "Property, plant and equipment". On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

(f) Investment property

Investment property is property held to earn rental and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any cumulated impairment losses. Depreciation is charged so as to write off the cost of investment property using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating leases are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

(h) Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(j) Borrowings costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(k) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other operating income".

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Pension and housing obligations

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Intangible assets

Intangible assets acquired separately

Intangible asset acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a staright-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from dereocognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is decognised.

Licences for technical knowledge

Expenditure on licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Intangible assets *(continued)*

Research and development expenditure *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(p) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of the relevant category of financial assets to the Group are set out below.

Income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective basis for debt instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated its unlisted investment in the equity interests in Western Trust & Investment Co., Ltd., a state controlled trust enterprise as available-for-sale financial assets. They are included in non-current assets since the directors of the Company do not have intention to dispose of the investment within 12 months of the balance sheet date.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Available-for-sale financial assets *(continued)*

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment loss of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and bills receivables, and other receivables, assets that are not assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on trade and bills receivables, and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Impairment loss of financial assets *(continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables and other receivable, is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, bank borrowings and long-term payables are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred assets, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are decognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit and loss.

(q) Land use rights

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights using the straight-line method.

(r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Company carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets have suffered any impairment in accordance with accounting policies stated in note 3 to the consolidated financial statements. The recoverable amounts of non-financial assets have been determined based on value-in-use calculations. These calculations require the use of estimates.

The Group tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development.

For the year ended 31 December 2007, the management had reviewed the Group's property, plant and equipment for impairment. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. During the year ended 31 December 2007, the Group recognised an impairment loss of approximately RMB2,630,000 in respect of property, plant and equipment (Note 17).

For the year ended 31 December 2006, the Group provided for an impairment loss of RMB67,205,000 (note 17) in respect of property, plant and equipment. The items being written down to recoverable amount due to there being business situation concerns over future profitability. The recoverable amounts of different production plants, cash generating units to which the property, plant and equipment belong, have been determined based on value-in-use calculations using cash flow projections determined by an independent professional valuer.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss in the consolidated income statement for the year ended 31 December 2007.

Contingent liabilities in respect of litigations

The Group has been involved in two litigations (note 37). Contingent liabilities arising from these litigations have been assessed by the directors with reference to legal advice.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance. The Group's overall strategy remains unchanaged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 30, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Group reviews the capital structure on a regular basis and monitors on the basis of the gearing ratio. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital. Gearing ratio is calculated as the proportion of total liabilities to total assets.

The Group aimed at maintaining a gearing ratio of not more than 50%. Based on the recommendations of the Group's directors, the Group intends to maintain a suitable ratio of share capital to liabilities, so as to maintain an effective capital structure from time to time. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	RMB'000	*RMB'000*
Total debt (a)	**962,684**	932,676
Net debt (b)	**599,067**	483,182
Total equity	**3,300,147**	3,216,611
Total capital (based on total debts) (c)	**4,262,831**	4,149,287
Total capital (based on net debt) (d)	**3,899,214**	3,699,793
Total debt to total capital ratio (%)	**22.6**	22.5
Net debt to total capital ratio (%)	**15.4**	13.1

There is no material change in the above gearing ratios in 2007.

Notes:

(a) Total debt equals to bank borrowings.

(b) Net debt equals to total debt less bank balances, cash and other liquid funds.

(c) Total capital (based on total debt) equals to total debt plus total equity.

(d) Total capital (based on net debt) equals to net debt plus total equity.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

6. FINANCIAL INSTRUMENTS

6a. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, bank borrowings, trade and bills receivables, other receivables, bank balances, trade and bills payables, other payables and long-term payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

The Group mainly operates in the PRC. Revenue and majority of its operating costs and cost of sales are denominated in RMB. Certain bank balances of the Group are denominated in the United States dollars ("USD"). Such USD denominated bank balances are exposed to fluctuations in the value of RMB against USD in which these bank balances are denominated. Any significant appreciation / depreciation of the RMB against these foreign currency may result in significant exchange gain / loss which would be recorded in the consolidated income statement.

Sensitivity analysis

As of 31 December 2007, if RMB had strengthened / weakened 5% against USD, with all other variables held constant, profit for the year would have been approximately 2,622,000 (2006: 2,054,000) lower / higher, mainly as a result of foreign exchange losses / gains on translation of USD denominated bank balances equivalents.

Credit risk

As at 31 December 2007, the Group's maximum exposures to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 87% (2006: 82%) of the total trade receivables as at 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

6. FINANCIAL INSTRUMENTS *(continued)*

6a. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group has concentration of credit risk as 9% (2006: 10%) and 18% (2006: 21%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. Sales to the largest customer and aggregate sales to the five largest customers represents 16% (2006: 19%) and 51% (2006: 65%) of total turnover respectively.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate impairment loss or trade receivables has been made in the consolidated financial statements.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utlisation of bank borrowings and ensures compliance with loan covenants.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management aims to maintain flexibility in funding by keeping committed credit lines available.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	On demand or within 1 year	**More than 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31/12/2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2007				
Trade payables	575,413	—	575,413	575,413
Long-term payables	2,938	9,250	12,188	12,188
Short-term bank borrowings	1,012,199	—	1,012,199	962,684
	1,590,550	9,250	1,599,800	1,550,285

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

6. FINANCIAL INSTRUMENTS *(continued)*

6a. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

	On demand or within 1 year *RMB'000*	More than 1 year *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31/12/2007 *RMB'000*
2006				
Trade payables	575,718	—	575,718	575,718
Long-term payables	2,347	10,572	12,919	12,919
Short-term bank borrowings	960,193	—	960,193	932,676
	1,538,258	10,572	1,548,830	1,521,313

Interest rate risk

The Group has interest-bearing assets mainly in the form of bank balances, but the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk arises from bank borrowings. The short-term bank borrowings are interest bearing at fixed rates between 5.31% to 7.65% (2006: 3.78% to 6.22%) and are repayable according to the contract terms.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6c. Categories of financial instruments

	2007 ***RMB'000***	2006 *RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
Trade receivables	**1,463,798**	1,512,292
Other receivables and deposits	**113,976**	33,641
Bank balances and cash	**363,540**	479,400
	1,941,314	2,025,333
Available-for-sale financial assets	**24,060**	24,060
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade payables	**575,413**	575,718
Other payables	**184,670**	682,918
Long-term payables	**12,188**	12,919
Short-term bank borrowings	**962,684**	932,676
	1,734,955	2,204,231

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

7. SEGMENT INFORMATION

a. Business segments

The Group's revenues, expenses, assets, liabilities and capital expenditures are primarily attributable to the production and sales of CPT. The directors consider that there is only one business segment for the Group.

b. Geographical segments

The Group's principal market is in the PRC. The direct exports sales made by the Group contributed to less than 10% of the total revenues and results of the Group (2006 : 10%). Accordingly, no geographical segment is presented.

8. TURNOVER

The Group is principally engaged in the manufacturing of CPT for colored television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc.

	2007	2006
	RMB'000	*RMB'000*
Sales of CPTs and CPT components	**3,358,990**	3,861,710

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

9. OTHER OPERATING INCOME

	2007	2006
	RMB'000	*RMB'000*
Sales of raw materials, scraps and packaging materials	**43,746**	19,498
Net gains on disposal of property, plant and equipments	**—**	21,748
Gains on disposal of intangible assets *(note 20)*	**—**	113,573
Interest income	**5,482**	6,521
Amortisation of deferred income on grants received	**3,321**	3,475
Government grants *(Note a)*	**25,485**	—
Proceeds from collection of written off trade receivables	**5,138**	700
Reversal of write-down of inventories	**10,678**	—
Rental income	**1,429**	1,317
Reversal of impairment loss on trade receivables	**—**	1,580
Reversal of provision for staff welfare	**72,488**	—
Dividend income from available-for-sale investment	**566**	—
Others	**10,102**	6,212
	178,435	174,624

Note (a): The amount represented compensation received from the PRC government recognised by the Group in respect of compensation for relocation of certain factory premises of the Company's subsidary.

10. EMPLOYEE BENEFIT EXPENSE

	2007	2006
	RMB'000	*RMB'000*
Wages and salaries	**331,441**	332,880
Retirement benefit contributions		
— pension obligations *(note)*	**45,768**	45,942
— one-off termination benefits	**3,813**	20,598
— early retirement benefits *(note 35)*	**630**	(3,957)
Welfare and social security costs	**57,568**	78,447
	439,220	473,910

Note: As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employee's basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group has no further pension obligation beyond the above contributions.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

10. EMPLOYEE BENEFIT EXPENSE *(continued)*

Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Xing Daoqing	—	290	10	300
Mr. Tao Kui	—	290	10	300
Mr. Guo Mengquan	—	261	10	271
Mr. Zhang Shaowen	—	257	10	267
Mr. Niu Xinan	—	265	—	265
Mr. Li Shikun *(note i)*	—	305	—	305
Non-executive directors				
Mr. Zhang Xingxi	—	240	—	240
Mr. Feng Fei *(note ii)*	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bin	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Mr. Zha Jianqiu *(note ii)*	100	—	—	100
Mr. Lv Hua *(note i)*	—	—	—	—
Mr. Zhong Pengrong *(note i)*	—	—	—	—
Mr. Yun Dah Jiunn *(note ii)*	—	—	—	—
	500	1,908	40	2,448

Notes:

(i) Appointed on 9 September 2007.

(ii) Resigned on 8 September 2007.

10. EMPLOYEE BENEFIT EXPENSE *(continued)*

Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Xing Daoqing	—	227	9	236
Mr. Tao Kui	—	239	9	248
Mr. Guo Mengquan	—	211	9	220
Mr. Zhang Shaowen	—	207	9	216
Mr. Niu Xinan *(note i)*	—	203	9	212
Non-executive directors				
Mr. Zhang Xingxi	—	320	17	337
Mr. Yun Dah Jiunn *(note ii)*	—	810	—	810
Mr. Feng Fei	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bin	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Mr. Zha Jianqiu	100	—	—	100
	500	2,217	62	2,779

Notes:

(i) Appointed on 29 June 2006.

(ii) Mr. Yun Dah Jiunn has been re-designated as a non-executive director with effect from 27 December 2006. Mr. Yun Dah Jiunn has also resigned from his office as chief financial controller of the Company.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

10. EMPLOYEE BENEFIT EXPENSE *(continued)*

Directors' and senior management's emoluments *(continued)*

Except for Mr. Zhang Xingxi's and Mr. Niu Xinan's emoluments which are afforded by IRICO Group, other directors of the Company received no emolument from IRCO Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to IRCO Group.

No directors of the Group waived or agreed to waive any emolument during both years.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2006: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2006: two) during the year are as follows:

	2007	2006
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,251**	555
Retirement benefit contributions	**41**	9
	1,292	564

The emoluments fell within the following band:

	Number of individuals	
	2007	2006
	RMB'000	*RMB'000*
Emolument band		
Nil to RMB1,000,000	**4**	2

During the year, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

11. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest expense on short-term bank borrowings	**50,159**	56,512
Interest expense to ultimate holding company *(note 39)*	**1,755**	1,648
Finance charge on discounted trade bills to banks	**14,815**	3,689
	66,729	61,849

12. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong for the two years ended 31 December 2007 and 2006.

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2006: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated income statement.

	2007	2006
	RMB'000	*RMB'000*
Current income taxation	**11,200**	19,949
Deferred income tax *(note 34)*	**(2,780)**	(121)
	8,420	19,828

12. TAXATION *(continued)*

Tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before tax	**80,577**	187,543
Tax at the domestic income tax rate of 33% (2006: 33%)	**26,590**	61,889
Tax effect of share of (profit) loss of associates	**(3,001)**	312
Expenses not deductible and income not taxable for tax purposes	**(7,142)**	824
Income under tax exemption and reduction *(note)*	**(21,795)**	(49,307)
Utilisation of tax losses previously not recognised	**(8,318)**	(28,278)
Tax effect of deductible temporary differences not recognised	**22,086**	34,388
Tax charge for the year	**8,420**	19,828

Note:

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10 September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd. ("IRICO Display") have met the requirements under the OUWC Policy for the two years ended 31 December 2007 and 2006, and accordingly, EIT has also been provided at 15%.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

12. TAXATION *(continued)*

Note: (continued)

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% from 2003 to 2005. The operations of Xian IRICO Zixun Co., Ltd. have also met the requirements under the OUWC Policy for the two years ended 31 December 2007 and 2006 and accordingly, EIT has also been provided at 15%.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay EIT at 15% in 2007 and 2006.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2007 and 2006.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is entitled to pay EIT at 12% from 2006. Xianyang IRICO Electronics Shadow Mask Co., Ltd., which was established in 2003, has sufficient current years profit to set off against previous years' accumulated losses and thus has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period for the year ended 31 December 2007.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Corporate Income Tax Law. The tax rate of the subsidiaries of which are now subjected to tax rate of 33% will change to 25% from 1 January 2008.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

13. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging and after crediting:		
Cost of inventories recognised as an expense	**3,002,987**	3,356,160
Depreciation for property, plant and equipment	**290,063**	337,461
Depreciation for investment property	**218**	—
Amortisation of leasehold land and land use rights	**1,887**	970
Amortisation of intangible assets	**7,302**	6,937
Employee benefit expense (included directors' and supervisors' emoluments)	**439,220**	473,910
Impairment losses on property, plant and equipment (included in administrative expenses; 2006: included in cost of sales)	**2,630**	67,205
Impairment losses on intangible assets	**—**	30,260
Impairment losses on trade and other receivables	**1,300**	—
Net loss on disposal of property, plant and equipment	**142,609**	—
Research and development expenses	**22,678**	25,917
Write-down of inventories	**3,376**	1,720
Write off of an intangible asset	**241**	—
Operating lease rentals in respect of land use rights	**3,797**	4,094
Operating lease rentals in respect of property, plant and equipment	**31,380**	37,336
Net exchange losses	**17,335**	12,216
Provision for warranty *(note 29)*	**25,348**	11,844
Auditors' remuneration	**3,671**	5,442
Share of tax of associates (included in share of result of associates)	**3,001**	(312)

14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB58,374,000 (2006: RMB9,956,000).

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of approximately RMB66,511,000 (2006: RMB129,512,000) and based on the weighted average of 1,941,174,000 (2006: 1,941,174,000) shares in issue.

There were no dilutive potential shares during the two years ended 31 December 2007 and 2006 and accordingly, no diluted earnings per share is presented.

16. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006 : Nil).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006							
Cost	437,618	2,884,203	878,938	861,163	114,101	734,044	5,910,067
Accumulated depreciation and impairment loss	(199,572)	(1,381,512)	(501,856)	(434,589)	(75,130)	(395,972)	(2,988,631)
Carrying value	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
Year ended 31 December 2006							
Opening carrying value	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
Additions	—	30,530	—	28,114	1,960	37,624	98,228
Transfers / reclassification	25,780	223,312	35,874	13,265	2	(298,233)	—
Transfer to inventories	—	—	—	—	—	(17,659)	(17,659)
Transfer to intangible assets	—	—	—	—	—	(27,917)	(27,917)
Disposals	—	(14,760)	—	(54,794)	(2,440)	—	(71,994)
Depreciation charge	(16,536)	(156,592)	(97,069)	(56,683)	(10,581)	—	(337,461)
Impairment charge	—	(56,735)	(8,715)	(1,755)	—	—	(67,205)
Closing carrying value	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428
At 31 December 2006							
Cost	463,398	3,438,324	970,522	794,321	104,697	31,887	5,803,149
Accumulated depreciation and impairment loss	(216,108)	(1,909,878)	(663,350)	(439,600)	(76,785)	—	(3,305,721)
Carrying value	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group *(continued)*

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007							
Opening carrying value	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428
Additions	5,359	71,627	10,782	33,061	6,578	6,454	133,861
Transfer to investment property	(4,915)	—	—	—	—	—	(4,915)
Disposals	(160)	(96,116)	(20,283)	(11,096)	(15,452)	(25)	(143,132)
Depreciation charge	(16,968)	(140,864)	(62,624)	(60,090)	(9,517)	—	(290,063)
Impairment charge	—	—	—	(2,630)	—	—	(2,630)
Disposal of a subsidiary	—	(158,241)	(22,331)	(322)	(15)	—	(180,909)
Closing carrying value	230,606	1,204,852	212,716	313,644	9,506	38,316	2,009,640
At 31 December 2007							
Cost	463,480	2,714,682	912,424	802,259	85,536	38,316	5,016,697
Accumulated depreciation and impairment loss	(232,874)	(1,509,830)	(699,708)	(488,615)	(76,030)	—	(3,007,057)
Carrying value	230,606	1,204,852	212,716	313,644	9,506	38,316	2,009,640

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Machinery for electronics production *RMB'000*	Machinery for glass production *RMB'000*	Other machinery *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2006						
Cost	1,215,784	571,476	459,612	76,817	147,198	2,470,887
Accumulated depreciation and impairment loss	(474,382)	(278,130)	(164,511)	(50,982)	(75,648)	(1,043,653)
Carrying value	741,402	293,346	295,101	25,835	71,550	1,427,234
Year ended 31 December 2006						
Opening net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Additions	14,855	—	1,348	802	10,418	27,423
Transfers / reclassification	9,473	35,874	(16,508)	—	(28,839)	—
Transfer to inventories	—	—	—	—	(17,659)	(17,659)
Disposals	(14,703)	—	(54,647)	(1,295)	—	(70,645)
Depreciation charge	(74,122)	(36,987)	(21,372)	(6,153)	—	(138,634)
Impairment reversal / (charge)	4,416	(8,715)	—	—	—	(4,299)
Closing carrying value	681,321	283,518	203,922	19,189	35,470	1,223,420
At 31 December 2006						
Cost	1,223,675	663,060	336,881	71,464	35,470	2,330,550
Accumulated deprecation and impairment loss	(542,354)	(379,542)	(132,959)	(52,275)	—	(1,107,130)
Carrying value	681,321	283,518	203,922	19,189	35,470	1,223,420

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company *(continued)*

	Machinery for electronics production *RMB'000*	Machinery for glass production *RMB'000*	Other machinery *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2007						
Opening net book amount	681,321	283,518	203,922	19,189	35,470	1,223,420
Additions	52,424	35,520	2,712	1,239	—	91,895
Disposals	(343,090)	—	(10,524)	(10,111)	—	(363,725)
Depreciation charge	(87,369)	(38,727)	(15,106)	(6,905)	—	(148,107)
Closing carrying value	303,286	280,311	181,004	3,412	35,470	803,483
At 31 December 2007						
Cost	698,337	698,580	280,396	55,773	35,470	1,768,556
Accumulated deprecation and impairment loss	(395,051)	(418,269)	(99,392)	(52,361)	—	(965,073)
Carrying value	303,286	280,311	181,004	3,412	35,470	803,483

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10 - 40 years
Machinery for electronics production	15 years
Machinery for glass production	6 - 18 years
Other machinery	18 years
Office equipment and others	5 years

The Group's depreciation charge of approximately RMB273,213,000 (2006 : RMB302,453,000) has been included in cost of sales, RMB462,000 (2006 : RMB731,000) in selling and distribution costs and RMB16,388,000 (2006 : RMB34,277,000) in administrative expenses.

During the year, the directors conducted a review of the Group's production machinery and determined that a number of those assets were impaired, due to technical obsolescence. Accordingly, impairment losses of RMB2,630,000 has been recognised in respect of other machinery and included in administrative expense.

The Group's impairment charge of approximately RMB67,205,000 had been included in cost of sales for the year ended 31 December 2006. The events and circumstances that led to the recognition of the impairment loss and the discount rates used in the current estimate of value in use are disclosed in note 4.

As at 31 December 2007, short-term bank borrowings of the Group amounting to approximately RMB200,000,000 (2006 : RMB140,000,000) are secured by the Group's buildings and machineries with the carrying amount of approximately RMB195,538,000 (2006 : RMB205,027,000) (note 30).

18. INVESTMENT PROPERTY — Group

	RMB'000
COST	
At 1 January 2006, 31 December and 1 January 2007	—
Transferred from property, plant and equipment during the year and at 31 December 2007	4,915
ACCUMULATED DEPRECIATION	
At 1 January 2006, 31 December and 1 January 2007	—
Charge for the year and at 31 December 2007	218
CARRYING VALUE	
At 31 December 2007	4,697

The above investment property was depreciated on a straight-line basis at 33% per annum.

The investment property as at 31 December 2007 was located in the PRC and was held to earn rentals or for capital appreciation. The investment property is carried at cost less subsequent accumulated depreciation and any accumulated impairment losses.

In the opinion of the directors of the Company, the fair value of the Company's investment property at 31 December 2007 was approximated to its carrying value with reference to the recent market prices for similar properties.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

19. LEASEHOLD LAND AND LAND USE RIGHTS — GROUP

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	RMB'000
COST	
At 1 January 2006 and 1 January 2007	46,859
Additions	12,396
At 31 December 2007	59,255
ACCUMULATED AMORTISATION	
At 1 January 2006	8,948
Amortisation charge	970
At 31 December 2006 and 1 January 2007	9,918
Amortisation charge	1,887
At 31 December 2007	11,805
CARRYING VALUE	
At 31 December 2007	47,450
At 31 December 2006	36,941

19. LEASEHOLD LAND AND LAND USE RIGHTS — GROUP *(continued)*

	2007	2006
	RMB'000	*RMB'000*
Outside Hong Kong, held on leases of:		
— between 10 to 50 years	**41,525**	36,659
— less than 10 years	**5,925**	282
	47,450	36,941
Analysed for reporting purposes as:		
— current asset (included in other receivables, deposits and prepayments)	**1,887**	970
— non-current asset	**45,563**	35,971
	47,450	36,941

As at 31 December 2007, short-term bank borrowings of the Group amounting to approximately RMB200,000,000 (2006 : RMB140,000,000) are secured by the Group's land use rights with the carrying value of approximately RMB20,387,000 (2006 : RMB21,012,000) (note 30).

The official property title certificate for certain of the Group's land use right with carrying amount of approximately RMB6,400,000 (2006: Nil) has not yet been issued by the relevant local government authorities. The directors are of the opinion that the Group's right and interest in such land use right will not be therefore severely prejudiced and the application of the title certificate is in progress.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

20. INTANGIBLE ASSETS

The Group

	Licences for technical knowledge *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2006			
Cost	332,037	1,543	333,580
Accumulated amortisation and impairment	(319,207)	(383)	(319,590)
Net carrying value	12,830	1,160	13,990
Year ended 31 December 2006			
Opening net carrying value	12,830	1,160	13,990
Additions	5,134	1,771	6,905
Transfer in from construction in progress	27,917	—	27,917
Charge for the year	(6,423)	(514)	(6,937)
Impairment loss recognised in the year	(30,260)	—	(30,260)
Closing net carrying value	9,198	2,417	11,615
At 1 January 2007			
Cost	365,088	3,314	368,402
Accumulated amortisation and impairment	(355,890)	(897)	(356,787)
Net carrying value	9,198	2,417	11,615

20. INTANGIBLE ASSETS *(continued)*

The Group *(continued)*

	Licences for technical knowledge *RMB'000*	**Computer software** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2007			
Opening net carrying value	9,198	2,417	11,615
Additions	241	120	361
Charge for the year	(6,570)	(732)	(7,302)
Write off for the year	—	(241)	(241)
Net carrying value	2,869	1,564	4,433
At 31 December 2007			
Cost	365,329	3,002	368,331
Accumulated amortisation and impairment	(362,460)	(1,438)	(363,898)
Net carrying value	2,869	1,564	4,433

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

20. INTANGIBLE ASSETS *(continued)*

The Company

	Licences for technical knowledge *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
At 1 January 2006			
Cost	94,575	1,543	96,118
Accumulated amortisation and impairment	(85,263)	(383)	(85,646)
Net carrying value	9,312	1,160	10,472
As at 31 December 2006			
Opening net carrying value	9,312	1,160	10,472
Additions	—	1,760	1,760
Charge for the year	(2,324)	(506)	(2,830)
Closing net carrying value	6,988	2,414	9,402
At 1 January 2007			
Cost	94,575	3,135	97,710
Accumulated amortisation and impairment	(87,587)	(721)	(88,308)
Net carrying value	6,988	2,414	9,402

20. INTANGIBLE ASSETS *(continued)*

The Company *(continued)*

	Licences for technical knowledge *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
Year ended 31 December 2007			
Opening net carrying value	6,988	2,414	9,402
Additions	—	120	120
Charge for the year	(4,752)	(732)	(5,484)
Disposals	(1,149)	(241)	(1,390)
Net carrying value	1,087	1,561	2,648
At 31 December 2007			
Cost	80,746	2,823	83,569
Accumulated amortisation and impairment	(79,659)	(1,262)	(80,921)
Net carrying value	1,087	1,561	2,648

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Licences for technical knowledge	20 years
Computer software	5 years

The Group's amortisation of approximately RMB6,570,000 (2006 : RMB6,423,000) has been included in cost of sales and RMB732,000 (2006 : RMB514,000) in the administrative expenses in the consolidated income statement.

The impairment charge of approximately RMB30,260,000 for the purchased technical knowledge for manufacturing of super large-sized CPTs was recognised for the Group during the year ended 31 December 2006 and included in cost of sales in the consolidated income statement since the directors consider that the Group will no longer produce the super large-sized CPTs.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

21. INVESTMENTS IN SUBSIDIARIES - COMPANY

A. Investments in subsidiaries

	2007	2006
	RMB'000	*RMB'000*
Investments, at cost :		
Shares in a listed company in the PRC	**596,169**	624,793
Unlisted shares	**440,327**	477,434
	1,036,496	1,102,227
Market value of listed shares	**1,122,312**	513,119

As at 31st December 2007, The Group's shares in a listed company in the PRC represent a 41.08% equity interest in IRICO Display Device Co., Ltd. ("IRICO Display"), a company listed on the Shanghai Stock Exchange.

During the year ended 31 December 2007, the Company disposed of its 1.82% equity interests in IRICO Display at a total consideration of RMB52,980,000 through the Shanghai Stock Exchange, and resulted in a gain on partial disposal of approximately RMB25,858,000.

Prior to the share reform, the Company had a 56.14% equity interest in IRICO Display.

21. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

A. Investments in subsidiaries *(continued)*

As at 31 December 2007, the Company has direct and indirect interests in the following subsidiaries, all of which were established and operate in the PRC. The particulars of the subsidiaries are set out below:

Name	Registered capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries
IRICO Display	RMB421,148,800	Production and development of the electronic products and raw materials for colour display devices	41.08%	—
IRICO Kunshan Industry Co., Ltd.	RMB60,000,000	Production of the rubber parts of CPTs	80%	10%
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB90,000,000	Production of phosphor for various types of CPTs	45%	—
Xian IRICO Zixun Co., Ltd.	RMB130,000,000	Production and sales of the parts and components for display devices and the electronic communication products	100%	—
Xianyang Caiqin Electronic Device Co., Ltd.	RMB25,000,000	Production and sales of pin, anode button, multi-form and frit for CPTs	87.16%	—
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	Sales of shadow mask, frames and electronic products for CPTs	60%	—

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

21. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

A. Investments in subsidiaries *(continued)*

Name	Registered capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries
Xianyang IRICO Electronic Shadow Mask Co., Ltd.	US$5,000,000	Development and production of the flat shadow mask and the coordinating products for CPTs	75%	—
Zhuhai Caizhu Industrial Co., Ltd.	RMB50,000,000	Manufacture of electronic devices and components	90%	—
IRICO Display Technology Co., Ltd.	US$2,500,000	Production and sale of CPTs, black and white picture tubes and ancillary electronic components	75%	—
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	Production and sales of frit for CPTs	—	100%
Kunshan Caihong Yingguang Electronics Co., Ltd.	US$4,500,000	Production of procession alloy and other products for color and black and white picture tubes	—	60%
Nanijing Reide Phosphor Co., Ltd.	US$443,300	Production and processing of recycled phosphor and related products for various types of CPTs	—	45%
Xian Caihui Display Technology Co., Ltd.	RMB10,000,000	R&D, design, manufacture, sales of CPTs, deflection yoke and related component and part as well as the after sale services for the sold product	—	100%

B. Loan to a subsidiary

For the year ended 31 December 2006, the loan to a subsidiary was unsecured, carried interest at 6.12% per annum and was fully repaid on 14 June 2007.

22. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of investment in associates — unlisted equity interests in the PRC	**—**	—	**250,000**	—
Opening carrying amount	**232,220**	17,339	**—**	—
Additions	**110,000**	215,826	**110,000**	250,000
Share of associates profits less dividends received	**8,733**	(945)	**—**	—
	350,953	232,220	**360,000**	250,000
Less: carrying amount of associates disposal during the year	**(17,303)**	—	**—**	—
	333,650	232,220	**360,000**	250,000

On 27 July 2007, the Group disposed of its 41.67% equity interests in an associate, Xian New Century International Club Co., Ltd., to IRICO Group at a consideration of RMB31,410,780 and recorded a gain on disposal of an associate of approximately RMB16,208,000 in the consolidated income statement.

In October 2007, Xian IRICO Plastic Industry Co., Ltd., an associate in which the Group had 30% equity interests, was deregistered. On the date of deregistration, the net assets shared by the Group amounted to approximately RMB2,100,000, which was set off against the outstanding payable of the same amount by the Group, resulting in no gain or loss on deregistration.

22. INTERESTS IN ASSOCIATES *(continued)*

The Group's interests in associates, all of which are unlisted, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Group's share of profits of associates
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Sichuan Century Shuanghong Display Devices Co., Ltd. ("Sichuan Shuanghong")	PRC	650,070	199,979	100,133	6,337
Xian New Century International Club Co., Ltd. *(Note)*	PRC	—	—	17,549	1,784
Shenzhen Ruisheng Phosphor Material Co., Ltd.	PRC	3,604	471	3,958	972
		653,674	200,450	121,640	9,093

Note: The amount included in the revenue and profit of Xian New Century International Club Co., Ltd. for the period from 1 January 2007 to the date of which Xian New Century International Club Co., Ltd. ceased to be an associate of the Group.

22. INTERESTS IN ASSOCIATES *(continued)*

Name	Country of incorporation	Assets	Liabilities	Revenues	Group's share of profits of associates
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2006					
Sichuan Shuanghong	PRC	209,112	16,466	—	(1,636)
Xian New Century International Club Co., Ltd.	PRC	20,941	7,523	13,604	271
Shenzhen Ruisheng Phosphor Material Co., Ltd.	PRC	2,967	456	3,526	1,207
Xian IRICO Plastic Industry Co., Ltd.	PRC	2,100	—	2,072	(787)
		235,120	24,445	19,202	(945)

The particulars of the associates of the Group at 31 December 2007 are set out below:

Name	Registered capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries
Sichuan Shuanghong *(note)*	RMB180,000,000	Production, research and development and sale of plasma display panels ("PDP") and related materials	20%	—
Shenzhen Ruisheng Phosphor Material Co., Ltd.	RMB4,000,000	Production regenerated red, green and blue phosphor materials	—	40%

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

22. INTERESTS IN ASSOCIATES *(continued)*

Note :

On 27 March 2006, the Company and Sichuan Changhong Group Corporation ("Changhong Group"), contributed cash of RMB1,000,000 each to form a company named "Beijing Century Shuanghong Display Devices Co., Ltd." with registered capital of RMB2,000,000. In July 2006, Beijing Century Shuanghong Display Devices Co., Ltd. was renamed as Sichuan Shuanghong.

On 10 October 2006, the Company and Changhong Group entered into an Increased Contributions Agreement for increasing the registered capital of Sichuan Shuanghong (the "Increased Contribution Agreement"). Pursuant to the Increased Contributions Agreement, the Group agreed to make additional capital contributions of RMB359,000,000, comprising cash of RMB119,000,000, tangible assets of RMB98,000,000 and intangible assets of RMB142,000,000 (the "Transaction Price") to Sichuan Shuanghong. The values of the tangible and intangible assets were negotiated and determined between the Company and Changhong Group on an arm's length basis with reference to a valuation report prepared by an independent professional valuer in the PRC.

Immediately following such increase in capital contributions, the registered capital of Sichuan Shuanghong would be increased to RMB1,800,000,000 of which RMB360,000,000 (20%) and RMB1,440,000,000 (80%) were attributable from the Company and Changhong Group respectively. The increased capital was scheduled to be contributed by both parties in accordance to the requirements as stated in the Company Law of the PRC.

Pursuant to the Increased Contributions Agreement, the Company had contributed RMB240,000,000 by way of injection of tangible and intangible assets in November 2006 and cash of RMB9,000,000. The Group recognised the gain on disposal of these tangible and intangible assets after considering the elimination of the 20% share of Group's unrealised valuation surplus of RMB171,000,000 (i.e. RMB34,200,000) based on the equity accounting method. Thus, the gain on disposal of property, plant and equipments was RMB23,000,000 and the gain on disposal of intangible assets was RMB114,000,000.

In May and June 2007, the Group contributed a total of RMB110,000,000 by way of cash into Sichuan Shuanghong.

23. AVAILABLE-FOR-SALE INVESTMENTS - GROUP

	2007	2006
	RMB'000	*RMB'000*
Unlisted investments	**33,500**	33,500
Impairment loss	**(9,440)**	(9,440)
	24,060	24,060

At the balance sheet date, the unlisted investments substantially comprise of the investment in equity interests in Western Trust & Investment Co., Ltd. ("WTI"), a state controlled trust enterprise. WTI has a number of investments in unlisted enterprises which have no available information concerning their market values. These investments held by WTI are stated at cost in WTI's book.

The available-for-sale investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliability.

24. INVENTORIES

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**173,677**	190,775	**101,423**	146,338
Work in progress	**41,406**	170,158	**3,048**	66,213
Finished goods	**424,286**	271,311	**117,672**	105,157
Consumables	**72,813**	20,665	**52,783**	4,926
	712,182	652,909	**274,926**	322,634
Write-down to net realisable value	**(13,692)**	(20,994)	**(1,303)**	(6,869)
	698,490	631,915	**273,623**	315,765

During the year ended 31 December 2007, there was an increase in the realisable value of raw materials due to market shortage in raw materials. As a result, a reversal of write-down of inventories of approximately RMB10,678,000 has been recognised in other operating income.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

25. TRADE RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables				
— third parties	**493,524**	344,065	**164,735**	92,929
— related parties *(note 39)*	**239,545**	335,923	**52,096**	88,470
— subsidiaries of the Company	**—**	—	**197,615**	286,929
	733,069	679,988	**414,446**	468,328
Less: impairment losses	**(12,621)**	(11,466)	**(47,165)**	(58,900)
Trade receivables — net	**720,448**	668,522	**367,281**	409,428
Trade bills receivables				
— third parties	**426,982**	220,980	**91,777**	40,307
— related parties *(note 39)*	**316,368**	622,790	**219,960**	136,137
	743,350	843,770	**311,737**	176,444
	1,463,798	1,512,292	**679,018**	585,872

As at 31 December 2006 and 2007, the ageing of trade bills receivables are all within 180 days.

25. TRADE RECEIVABLES *(continued)*

The Group allows an average credit period ranging from cash on delivery to 90 days to its trade customers. The following is an aged analysis of trade receivables net of impairment loss at the reporting date:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0-90 days	**612,190**	602,211	**222,703**	308,341
91-180 days	**62,313**	57,640	**64,946**	93,961
181-365 days	**38,694**	4,001	**64,314**	6,363
Over 365 days	**7,251**	4,670	**15,318**	763
	720,448	668,522	**367,281**	409,428

Ageing of trade receivables which are past due but not impaired:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
91-180 days	**62,313**	57,640	**64,946**	93,961
181-365 days	**38,694**	4,001	**64,314**	6,363
Over 365 days	**7,251**	4,670	**15,318**	763
	108,258	66,311	**144,578**	101,087

The Group's neither past due nor impaired trade receivables mainly represent sales made to a large number of diversified and recognised and creditworthy customers. Customers who trade on credit terms are subject to credit verification procedures. No impairment provision is required for the past due balance based on the historical payment records. The Group does not hold any collateral over those balances.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

25. TRADE RECEIVABLES *(continued)*

At each of the balance sheet date, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The movement in the provision for impairment of trade receivable is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at beginning of the year	**11,466**	13,229	**58,900**	11,963
Impairment losses recognised	**3,878**	—	**—**	46,937
Amounts recovered during the year	**(2,723)**	(1,763)	**(11,735)**	—
Balance at end of the year	**12,621**	11,466	**47,165**	58,900

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**114,691**	34,614	**83,181**	27,027
Less: impairment loss	**(2,441)**	(2,295)	**(662)**	(345)
Deposits and prepayments	**23,672**	33,734	**2,419**	16,060
	135,922	66,053	**84,938**	42,742

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Movement in the impairment loss of other receivables:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at beginning of the year	**2,296**	2,112	**345**	—
Impairment losses recognised	**145**	183	**317**	345
Balance at end of the year	**2,441**	2,295	**662**	345

27. BANK BALANCES AND CASH

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Pledged balances	**—**	30,009	**—**	30,009
Unpledged balances				
— time deposits	**24,500**	30,000	**—**	—
— other bank balances and cash	**339,117**	419,494	**160,821**	191,720
	363,617	479,503	**160,821**	221,729

All the bank balances and cash are denominated in RMB and deposited with banks in the PRC except for the equivalent amounts of approximately RMB52,531,000 (2006: RMB110,763,000) at 31 December 2007 which is denominated in foreign currencies. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2006, bank balances and cash of the Group and the Company included deposit of RMB30,009,000 which was pledged to secure trade bills payable (2007: Nil).

The effective interest rate on time deposits was 2.52% to 3.78% (2006: 2.25%). These pledged deposits have a maturity from 180 days to 365 days (2006: 180 days to 365 days).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

28. TRADE PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables				
— third parties	**402,399**	335,690	**213,783**	185,446
— related parties *(note 39)*	**103,024**	212,241	**40,978**	138,685
— subsidiaries of the Company	**—**	—	**78,182**	25,340
	505,423	547,931	**332,943**	349,471
Trade bills payables				
— third parties	**33,458**	2,150	**33,458**	2,150
— related parties *(note 39)*	**36,532**	25,637	**36,532**	25,637
	69,990	27,787	**69,990**	27,787
	575,413	575,718	**402,933**	377,258

At 31 December 2007 and 2006, the ageing analysis of trade payables are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0-90 days	**472,486**	497,373	**314,799**	343,452
91-180 days	**8,151**	12,237	**8,762**	3,812
181-365 days	**8,655**	17,145	**3,283**	606
Over 365 days	**16,131**	21,176	**6,098**	1,601
	505,423	547,931	**332,942**	349,471

29. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amount due to ultimate holding company *(note 39)*	**35,371**	340,095	**33,648**	310,659
Provisions of warranty *(note)*	**3,972**	5,537	**6**	3,514
Others	**175,970**	380,879	**148,270**	281,757
	215,313	726,511	**181,924**	595,930

Note:

Movements of the provisions of warranty are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening carrying amount	**5,537**	3,939	**3,514**	3,939
Charged in the consolidated income statement *(note 13)*	**25,348**	11,844	**21,245**	4,094
Utilised during year	**(26,913)**	(10,246)	**(24,753)**	(4,519)
Closing carrying amount	**3,972**	5,537	**6**	3,514

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within three years from the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and the Group only makes provision where a claim is probable.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

30. SHORT-TERM BANK BORROWINGS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Secured	**200,000**	140,000	**—**	—
Unsecured				
Guaranteed by the ultimate holding company	**250,500**	640,000	**136,500**	470,000
Advanced from banks on discounted trade receivables	**262,184**	58,972	**242,184**	—
Unguaranteed	**250,000**	93,704	**250,000**	93,704
	962,684	932,676	**628,684**	563,704

As at 31 December 2007, short-term bank borrowing of approximately RMB200,000,000 (2006: RMB140,000,000) are secured by certain land use rights (note 19), and buildings and machineries of the Group (note 17).

As at 31 December 2007, the Group and the Company's unguaranteed bank borrowings are secured by certain land and buildings with carrying values of approximately RMB184,711,000 of its ultimate holding company. No assets pledge was provided by the ultimate holding company to the Company and the Group for the year ended 31 December 2006.

As at 31 December 2007, all borrowings were denominated in RMB. As at 31 December 2006, approximately RMB93,704,000 of bank borrowings were denominated by USD while the remaining were denominated in RMB.

30. SHORT-TERM BANK BORROWINGS *(continued)*

As at 31 December 2007 and 2006, all short-term bank borrowings are based on fixed interest rate. The effective interest rates as at the balance sheet date were as follows:

	2007	2006
Short-term bank borrowings per annum	**5.31% - 7.65%**	3.78% - 6.22%

As at 31 December 2007, the unutilised banking facilities of the Group amounted to approximately RMB191,099,000 (2006: RMB187,025,000).

31. SHARE CAPITAL

	As at 31 December 2006 and 2007	
	Number of shares	**Amount**
		RMB'000
Issued and fully paid :		
Domestic shares of RMB1 Yuan each	1,455,880,000	1,455,880
H shares of RMB1 Yuan each	485,294,000	485,294
	1,941,174,000	1,941,174

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

32. OTHER RESERVES

The Group

	Capital reserve (Note (i)) RMB'000	Statutory surplus reserve (Note (ii)) RMB'000	Statutory public welfare fund (Note (iii)) RMB'000	Total RMB'000
At 1 January 2006	920,872	15,687	7,843	944,402
Negative reserve arising from share reform *(note iv)*	(176,083)	—	—	(176,083)
Acquisition of additional interests of a subsidiary from a minority shareholder	(2,173)	—	—	(2,173)
Transfers	—	7,843	(7,843)	—
At 31 December 2006 and at 31 December 2007	742,616	23,530	—	766,146

The Company

	Capital reserve (Note (i)) RMB'000	Statutory surplus reserve (Note (ii)) RMB'000	Statutory public welfare fund (Note (iii)) RMB'000	Total RMB'000
At 1 January 2006	962,623	15,687	7,843	986,153
Transfers	—	7,843	(7,843)	—
At 31 December 2006, at 1 January 2007 and 31 December 2007	962,623	23,530	—	986,153

32. OTHER RESERVES *(continued)*

Notes:

(i) Capital reserve

Upon incorporation of the Company on 10 September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company.

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(iii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation determined in accordance with PRC GAAP to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

In accordance with the revised PRC regulations which is effective from 1 January 2006 and a circular issue by the Ministry of Finance (Cai Qi [2006] No.67), the Company is not required to provide for statutory public welfare fund out of appropriation of profit after taxation. The remaining balance as at 1 January 2006 is transferred into statutory surplus reserve.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

32. OTHER RESERVES *(continued)*

Notes: (continued)

(iv) Negative reserve arising from share reform

Under the share reform, which was approved by the shareholders of IRICO Display on 18 July 2006, the Company offered 4.2 unlisted shares in IRICO Display for every 10 listed shares held on 27 July 2006 in consideration for such holders of listed shares to agree that all the IRICO Display's unlisted shares be converted into listed shares.

The Company transferred a total of 51,403,287 unlisted shares in IRICO Display to listed shareholders, representing approximately 12.21% of the total issue shares of IRICO Display and approximately 21.74% of the Company's unlisted shares in IRICO Display. The Company also transferred a total of 4,361,148 unlisted shares to listed shareholders on behalf of 15 unlisted shareholders who did not pay for their consideration.

In the Group's consolidated financial statements, the above share reform reduced capital reserve attributable to the shareholders of the Company by approximately RMB176,083,000 and increased minority interests by the same amount. The share paid on behalf of the 15 unlisted shareholders of RMB14,939,000 are recorded as amount due from these shareholders and increased minority interests by approximately RMB14,939,000.

33. DEFERRED INCOME

Deferred income represents grant received from the United Nations by the Group for its ozone depleting substance cleansing replacement project for acquiring machineries to treat the ozone depleting substance produced during the production process. This deferred income is amortised to the consolidated income statement on a straight-line basis over the expected lives of the corresponding assets of 5 years.

34. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 25% (2006: 33%) except for certain subsidiaries mentioned in note 12 to the consolidated financial statements which are subject to tax concession to pay income tax at 15% (2006: 15%).

The gross movement on the deferred income tax account is as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening carrying amount	**15,577**	15,698	**6,117**	3,614
(Credited) debited to the consolidated income statement	**(2,780)**	(121)	**(714)**	2,503
Closing carrying amount	**12,797**	15,577	**5,403**	6,117

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

34. DEFERRED TAXATION *(continued)*

Deferred tax liabilities:

	The Group Accelerated tax depreciation *RMB'000*	**The Company Accelerated tax depreciation** *RMB'000*
At 1 January 2006	15,698	3,614
(Credited) debited to the consolidated income statement	(121)	2,503
At 31 December 2006 and 1 January 2007	15,577	6,117
Credited to the consolidated income statement	(2,780)	(714)
At 31 December 2007	12,797	5,403

The deferred tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards and other deductible temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has deductible temporary differences of approximately RMB 321,040,000 (2006: RMB229,253,000) where, in the opinion of the directors, it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses and other deductible temporary differences. The Group's unrecognised deferred tax assets in respect of tax losses will expire in 2012.

35. LONG-TERM PAYABLES

Long-term payables mainly represent early retirement allowance payable to the employees of the Group.

The maturity profile of the long-term payables was as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening carrying amount	**12,919**	18,505	**10,027**	13,355
Utilised during year	**(1,361)**	(1,629)	**(1,361)**	(651)
Debited (credited) to consolidated income statement *(note 10)*	**630**	(3,957)	**(5,796)**	(2,677)
Closing carrying amount	**12,188**	12,919	**2,870**	10,027
Less: current portion included in current liabilities	**(2,938)**	(2,347)	**(744)**	(962)
Non-current portion	**9,250**	10,572	**2,126**	9,065

The provision mainly represented early retirement allowance payable to the employees of the Group. Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

The fair values of payables equal their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on five-year bank borrowings rate of 6.34% (2006: 6.12%).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

36. DISPOSAL OF A SUBSIDIARY

On 27 July 2007, the Group entered into an agreement with IRICO Group, the Company's ultimate holding company, for the disposal of its 72.02% equity interest in a subsidiary, Xianyang IRICO Digital Display Co., Ltd., a company engaged in the production and sales of CPTs. The net assets of Xianyang IRICO Digital Display Co., Ltd. at the date of disposal were as follows:

	2007
	RMB'000
Net assets disposed of:	
Property, plant and equipment	180,909
Inventories	2,814
Trade receivables	5,424
Bank balances and cash	16,568
Trade payables	(25,034)
Tax payables	(123)
Net assets	180,558
Gain on disposal of a subsidiary	1,969
Total consideration	182,527
Satisfied by:	
Cash	147,181
Other receivables	35,346
	182,527
Net cash inflow arising from disposal:	
Cash consideration	147,181
Bank balances and cash disposed of	(16,568)
	130,613

36. DISPOSAL OF A SUBSIDIARY *(continued)*

During the year ended 31 December 2007, the disposed subsidiary contributed to approximately RMB10,279,000 to the Group's profit, contributed net operating cash flow RMB9,977,000 and received approximates to RMB14,354,000 from investing activities.

37. MATERIAL LITIGATIONS

The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company

On or about 19 June 2006, Xingyun brought an action against the Company in the People's High Court of Shaanxi. The Company received a notice ((2006) Shaan Min Chu Zi No. 16) from the court on 20 June 2006 requesting the Company to respond to the action and produce evidence in relation thereto.

On 28 July 2003, five Confirmation Agreements on Parts and Materials ("Confirmation Agreements") were entered into between Xingyun and the IRICO Colour Picture Tube Plant No. 1 CPT plant (彩虹彩色顯像管總廠彩管一廠) ("No. 1 CPT Plant"). According to the five Confirmation Agreements, Xingyun shall provide No. 1 CPT Plant with 5 types of parts samples including 37cm CPT model L shadow mask frame and anti-implosion band for mass pre-sale quality confirmation. In around February 2005, since the parties failed to agree on the price of bulk provision of goods upon the completion of the Confirmation Agreements, No. 1 CPT Plant notified Xingyun to suspend the provisions of parts as agreed in the Confirmation Agreements. Xingyun believes that this caused a total loss of RMB30,300,000 which was incurred from the investments in the construction of facilities and the purchase of materials.

The hearing of the case has ended. On 27 December 2006, the Company received a civil verdict ((2006) Shaan Min Er Chu Zi No. 16) from the People's High Court of Shaanxi. The court ruled that the claim by Xingyun against the Company to bear its investment loss of RMB26,340,000 and its claim against the Company to bear its production loss of RMB3,960,000 were not justified and were dismissed. The court also ruled that, according to the principle of fairness, the Company should acquire finished products, semi-finished products and raw materials held by Xingyun in the value of RMB3,880,000 according to the quantities, types and prices determined by both parties. Those finished products, semi-finished products and raw materials can still be utilised in the process of production by the Company, and therefore no loss would be incurred.

The period allowed for appeal stipulated in the civil verdict ((2006) Shaan Min Er Chu Zi No. 16) expired on 14 January 2007, and Xingyun has not filed an appeal to the People's Supreme Court of the PRC within such stipulated period.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

37. MATERIAL LITIGATIONS *(continued)*

On 11 April 2007, the Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10)) from the People's High Court of Shaanxi, and was informed that Xingyun brought an action for a second time against the Company in respect of the same matter.

The Company made a written submission to the Court denying all liabilities in response to the allegations made by Xingyun. The Company believes that Xingyun's claim for litigations had no legal and factual basis, therefore its claim should be dismissed. On 23 November 2007, the People's High Court of Shaanxi issued the civil verdict ((2007) Shaan Min Er Chu Zi No. 10). The Court ruled that the claim by Xingyun against the Company demanding for compensation to its investment and other losses totaling RMB30,010,000 was not established and should be dismissed. At present, Xingyun has filed an appeal to the People's Supreme Court of the PRC. The Company has received a writ of summons from the People's Supreme Court on 15 April 2008.

Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation")

On or about 11 February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), holders of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has not commenced any action against the Company.

On or about 20 May 2005, CPYI commenced a third-party action against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar.

37. MATERIAL LITIGATIONS *(continued)*

A copy of the third-party complaint was served by Law Debenture Society on the Company on or about 11 June 2005. The Company has retained a law firm to represent the Company in the litigation. On 18 August 2005, such law firm filed a motion to dismiss the third-party complaint in its entirety. On 13 October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7 November 2005, the Company filed an answer to CPYI's claims, denying all liability.

Because no party has identified a single material misrepresentation or omission made by the Company in the offering circular, the Company filed a motion for summary judgment on 15 May 2006. On 9 August 2006 the Court partly dismissed the motion, and the discovery procedure and the expected litigation procedure continued to proceed. Pursuant to the schedule approved by the Court, the closing date of the discovery procedure was postponed to 1 December 2006. The trial by jury was started on 1 May 2007.

Upon completion of the discovery procedure, summary judgment commenced for Core Pacific and Baystar. The Court granted Core Pacific's motion and dismissed the rights appeal that may be implied in all the litigations of Core Pacific. Shortly thereafter, Core Pacific approached the Company and offered to dismiss the claim for damages against the Company. Ne payment or compensation in respect of the litigation is required from the Company. The Company accepted the offer and signed the settlement proposal with the relevant parties on 5 October, 2007. Therefore, the litigation has ended.

The result of the above litigations has no material impact on the 2007 financial statement of the Group.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

38. COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	—	19,694
— Construction and renovation of production lines for CPT components	—	4,387
	—	24,081
Contracted but not provided for		
— Investment in an associate	—	110,000
— Construction and renovation of production lines for CPTs	—	18,797
— Construction and renovation of production lines for CPT components	**27,550**	932
	27,550	129,729
	27,550	153,810

38. COMMITMENTS *(continued)*

As lessee

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	The Group				The Company			
	Land use rights		Property, plant and equipment		Land use rights		Property, plant and equipment	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Not later than one year	**4,603**	4,603	**35,315**	32,668	**3,584**	—	**23,677**	—
Later than one year and not later than five years	**4,603**	9,205	**34,858**	65,337	**3,584**	—	**23,677**	—
	9,206	13,808	**70,173**	98,005	**7,168**	—	**47,354**	—

The Group and the Company leases its land use rights and property, plant and equipment under operating lease arrangements with leases negotiated for terms of an average of three and three years respectively.

As lessor

At the balance sheet date, an investment property is leased out for a period of 3 years from the date of commencement of operation of a lessee that occupies the property and the lease did not have any renewal options given to the lessee. The rental yield for the year ended 31 December 2007 is 30.4%. The Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within one year	**419**	—
In the second to fifth years inclusive	**192**	—
	611	—

39. RELATED-PARTY TRANSACTIONS

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are widely held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entities (hereinafter collectively referred to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and IRICO Group Corporation and their close family members. IRICO Group Corporation does not produce financial statements available for public use.

IRICO Group Corporation is controlled by PRC government. In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also regarded as related parities of the Group and defined as "Other state controlled enterprise". For purpose of related transaction disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, in the opinions of Directors, the majority of the Group's activities have been conducted with other state controlled enterprises in the Group's ordinary course of business. In the meantime, the meaningful information relating to related party transactions has been adequately disclosed.

39. RELATED-PARTY TRANSACTIONS *(continued)*

The following transactions were carried out with related parties:

A. Sale of goods

	2007	2006
	RMB'000	*RMB'000*
Sales of goods to the IRICO Group *(note (i))*:		
— The utilities plant of the ultimate holding company	**75,378**	4,810
— Shenzhen Hongyang Industry & Trade Company	**12,239**	9,612
— Rui Bo Electronics (HK) Limited	**3,324**	5,044
— Caihong Labour Services Company	**3,066**	340
— Shaanxi IRICO General Service Corporation	**501**	346
— Shaanxi IRICO Construction Engineering Co., Ltd.	**4**	4
	94,512	20,156
Other state controlled enterprises	**1,138,139**	2,258,081

Note:

(i) Sales to related parties were conducted at prices not less than cost and with terms mutually agreed by both contracting parties.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

39. RELATED-PARTY TRANSACTIONS *(continued)*

B. Purchases of goods and provision of services

	2007	2006
	RMB'000	*RMB'000*
Purchases of goods from the IRICO Group *(note (i))*		
— Shaanxi IRICO General Service Corporation	**41,933**	49,866
— Caihong Labour Services Company	**37,384**	74,387
— Xianyang Cailian Packaging Materials Co., Ltd.	**17,787**	32,613
— Xianyang Caihong Adhesive Belt Co., Ltd.	**2,300**	5,539
— Shenzhen Hongyang Industry & Trade Company	**49**	1,086
— Xian Caihong Plastic Co., Ltd.	**—**	10,513
	99,453	174,004
Other state controlled enterprises	**534,888**	609,045
Purchases of property, plant and equipments		
The IRICO Group		
— Xian Caihong Plastic Co., Ltd.	**—**	3,408
— Shenzhen Hongyang Industry & Trade Company	**—**	1,059
	—	4,467
Other state controlled enterprises	**—**	12,765

39. RELATED-PARTY TRANSACTIONS *(continued)*

B. Purchases of goods and provision of services *(continued)*

	2007	2006
	RMB'000	*RMB'000*
Provision of services from the IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company *(note (ii))*	**397,229**	454,899
— Rental expense to the ultimate holding company *(note (iii))*	**35,048**	39,883
— Trademark license fee to the ultimate holding company *(note (v))*	**3,476**	3,828
— Environmental expenses to Caihong Labour Service Company	**100**	—
— School expense to IRICO School *(note (iv))*	**—**	6,066
— Social and ancillary service charges from the ultimate holding company *(note (vi))*	**—**	3,316
— Shaanxi IRICO Engineering Audit Company	**—**	260
	435,853	508,252
Other state controlled enterprises	**—**	—

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

39. RELATED-PARTY TRANSACTIONS *(continued)*

B. Purchases of goods and provision of services *(continued)*

Notes:

(i) Purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Various kinetic energy charges were paid / payable by the companies of the Group to the utilities plant of the ultimate holding company based on the agreed rates for the two years ended 31 December 2007 and 2006 respectively.

(iii) From 1 January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31 December 2007 amounted to RMB35,048,000 (2006: RMB39,883,000).

(iv) At 3 November 2006, IRICO School has been transferred to the local government of Xianyang. Accordingly, the school expense to IRICO School is ceased from that date.

(v) License fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31 December 2006. In accordance with the agreement signed by the rest entities of the Group, the license fee is to be paid from 1 January 2004 and the agreement is for a term of 3 years up to 31 December 2006 unless terminated by either party with a three-month prior notice, and it was renewed for a term of 3 years up to 31 December 2009.

(vi) Social and ancillary service charges for the provision of staff welfare services are paid / payable to the ultimate holding company on a cost reimbursement basis.

C. Compensation

In 2006, Caihong Labour Services Company provided certain materials to the Group for trial production on new products. Due to the quality issue of those materials, Caihong Labour Service Company paid compensation of RMB10,007,000 in accordance with related contracts.

39. RELATED-PARTY TRANSACTIONS *(continued)*

D. Balance with ultimate holding company

(i) Loans from the ultimate holding company - Group

	2007	2006
	RMB'000	*RMB'000*
Opening carrying amount	**29,000**	30,048
Loans borrowed	**—**	29,000
Repayment	**(30,755)**	(31,696)
Interest expense *(note 11)*	**1,755**	1,648
Closing carrying amount	**—**	29,000

Pursuant to an agreement entered into on 16 December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19 December 2004 and offset its amount due to the ultimate holding company. This balance is recorded in the non-trade payables due to the ultimate holding company.

Loans from the ultimate holding company are unsecured, due within one year and with interest rate 6.12% (2006: 6.12%) per annum.

(ii) Amount due to the ultimate holding company

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other payables and accruals				
The ultimate holding company	**35,371**	340,095	**33,648**	310,659

As at 31 December 2006, except for amount of RMB29,000,000 of the Group due to the ultimate holding company which carried interest at 6.12% per annum and fully repaid on 12 December 2007, the remaining non-trade balances as at 31 December 2006 and 2007 are unsecured, interest-free and have no fixed repayment terms.

39. RELATED-PARTY TRANSACTIONS *(continued)*

D. Balance with ultimate holding company *(continued)*

(iii) Director's emolument afforded by the ultimate holding company

An executive director of the Company, Mr. Zhang Xing Xi and Mr. Niu Xinan's emolument are afforded by the Group's ultimate holding company, IRICO Group Corporation (note 10).

(iv) Guarantees granted or assets pledged by the ultimate holding company

As at 31 December 2007, the ultimate holding company granted a guarantee and pledged certain of its land and buildings to the Company and the Group for certain bank borrowings (note 30).

E. Key management compensation

	2007	2006
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**3,810**	3,091
Fees	**500**	500
Retirement benefit contributions	**101**	84
	4,411	3,675

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

39. RELATED-PARTY TRANSACTIONS *(continued)*

F. Year-end balances arising from sales / purchases of goods / provision of services

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties *(note)*				
The IRICO Group				
— Xianyang IRICO Digital Display Co., Limited	**2,719**	—	**2,719**	—
— Shenzhen Hongyang Industry & Trade Company	**2,670**	2,984	**2,670**	—
— Shaanxi IRICO Electronics Glass Company Limited	**1,371**	—	**1,371**	—
— Shaanxi IRICO General Service Corporation	**3**	—	**3**	—
— Caihong Labour Service Company	**—**	5,332	**—**	—
	6,763	8,316	**6,763**	—
Other state controlled enterprises	**549,150**	950,397	**265,293**	224,607
	555,913	958,713	**272,056**	224,607
Representing:				
Trade receivables *(note 25)*	**239,545**	335,923	**52,096**	88,470
Trade bills receivables *(note 25)*	**316,368**	622,790	**219,960**	136,137
	555,913	958,713	**272,056**	224,607

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

39. RELATED-PARTY TRANSACTIONS *(continued)*

F. Year-end balances arising from sales / purchases of goods / provision of services *(continued)*

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables from related parties *(note)*				
The IRICO Group				
— The utilities plant of the ultimate holding company	**16,200**	104,965	**—**	75,864
— Caihong Labour Service Company	**11,021**	3,702	**421**	2,574
— Shaanxi IRICO General Service Corporation Co., Ltd.	**9,814**	5,079	**279**	820
— The utilities holding company	**8,652**	8,387	**8,652**	8,215
— Xianyang Cailian Package Material Company	**6,825**	3,581	**3,618**	1,654
— Shenzhen Hongyang Industry & Trade Co., Ltd.	**2,979**	744	**2,960**	291
— Xianyang Caihong Adehesive Belt Co., Ltd.	**1,349**	724	**—**	392
— Xianyang Caihong Plastic Co., Ltd.	**—**	2,100	**—**	—
— Xianyang Caihong Electronic Materials Co.	**—**	147	**—**	—
	56,840	129,429	**15,930**	89,810
Other state controlled enterprises	**82,716**	108,449	**61,580**	74,512
	139,556	237,878	**77,510**	164,322
Representing:				
Trade payables *(note 28)*	**103,024**	212,241	**40,978**	138,685
Trade bills payables *(note 28)*	**36,532**	25,637	**36,532**	25,637
	139,556	237,878	**77,510**	164,322

Note:

The trade balances in respect of sales and purchases are under the Group's normal trading terms.

39. RELATED-PARTY TRANSACTIONS *(continued)*

G. Bank balances in and loans from state controlled banks

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank balances in state controlled banks	**317,438**	479,400	**159,870**	221,670
Short-term borrowings from state controlled banks	**792,684**	932,676	**528,684**	563,704

	2007	2006
	RMB'000	*RMB'000*
Interest income from state controlled banks	**5,371**	6,521
Interest and finance costs to state controlled banks	**44,075**	56,512

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the Group disposed of its 72.02% equity interest in Xianyang IRICO Digital Display Co., Ltd. to IRICO Group at a consideration of approximately RMB182,527,000 of which RMB35,346,000 was unsettled and included in other receivables as at 31 December 2007.

On 29 July 2007, the Company entered into an exchange agreement with IRICO Display, whereby the Company has agreed to transfer certain of its property, plant and equipment with carrying values of approximately RMB348,246,000 to IRICO Display. Pursuant to the agreement, IRICO Display has agreed to transfer property, plant and equipment of approximately RMB66,601,000 and paid a total cash consideration of approximately RMB221,207,000 to the Company.

41. EVENTS AFTER THE BALANCE SHEET DATE

As mentioned in the announcement of the Company dated 17 August 2007, the Company and IRICO Group entered into an acquisition agreement, pursuant to which IRICO Group agreed to sell and the Company agreed to purchase the 69.5308% equity interests held by IRICO Group in Shaanxi IRICO Electronics Glass Company Limited for a total consideration of approximately RMB279.58 million, of which will be settled by the issue of no more than 385,000,000 new H shares of the Company. The transaction has not been completed at the date of this report and is subject to the approval by the State-Owned Assets Supervisor and Administration Commission.

FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**3,358,990**	3,861,710	3,927,500	4,949,683	4,269,781
Profit / (loss) before taxation	**80,577**	187,543	(911,956)	650,250	623,116
Taxation	**(8,420)**	(19,828)	(48,377)	(134,468)	(173,936)
Profit before minority interests	**72,157**	167,715	(960,333)	515,782	449,180
Minority interests	**5,646**	38,203	(205,786)	130,455	(133,355)
Net profit / (loss) attributable to equity holders of the year	**66,511**	129,512	(754,547)	385,327	315,825
Assets, liabilities and minority interests	**7,920,331**	8,801,216	9,361,210	11,200,106	8,771,594
Total assets	**5,083,870**	5,491,057	5,795,426	7,121,278	5,475,676
Total liabilities	**1,783,723**	2,274,446	2,734,800	2,949,962	2,288,758
Minority interests	**1,052,738**	1,035,713	830,984	1,128,866	1,007,160

Corporate Information

Introduction

Executive Directors

Xing Daoqin	*Chairman*
Tao Kui	*Vice Chairman*
Guo Mengquan	
Zhang Shaowen	
Niu Xinan	
Li Shikun	*Chief Financial Controller*

Non-executive Director

Zhang Xingxi

Independent Non-executive Directors

Xu Xinzhong
Feng Bing
Wang Jialu
Zhong Pengrong
Lv Hua

Audit Committee

Lv Hua
Feng Bing
Zhong Pengrong
Xu Xinzhong
Zhang Xingxi

Joint Company Secretaries

Liu Xiaodong
Lam Chun Lung

Corporate Information (Continued)

Introduction *(continued)*

Qualified accountant

Lam Chun Lung

Authorised representative

Niu Xinan
Liu Xiaodong

Legal address in the PRC

No. 1 Caihong Road
Xianyang, Shaanxi Province
The People's Republic of China
Postal code: 712021

Place of business in Hong Kong

Room 3103, 31st Floor
Convention Tower, 1 Wanchai Road
Hong Kong

Company website

www.irico.com.cn

Legal adviser

Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Hong Kong

Auditors

Shine Wing (HK) CPA Limited
16/F, United Centre, 95 Queensway,
Hong Kong

Corporate Information (Continued)

Introduction *(continued)*

Principal bankers

Industrial and Commercial Bank of China (Xianyang Branch)
Construction Bank of China (Xianyang Branch)
Industrial and Commercial Bank of China (Xian Advanced Technology Development Zone Branch)
Industrial and Commercial Bank of China (Xian Branch)

Registrar of H Shares

Computershare Hong Kong Investor Services Limited
Room 1712 - 1716, 17th Floor, Hopewell Center
183 Queen's Road East
Hong Kong

Investor and media relations

Wonderful Sky Financial Group
Unit 3103, 31st Floor, Office Tower
Convention Plaza,1 Harbour Road
Hong Kong